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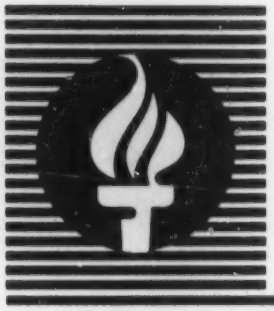

The Conference Board

Human Resources Outlook 1990

Highlights are:

- *a stagnant economy*
- *slight increase in price and wage inflation*
- *opportunities for carrying out management efficiencies that were initiated during the 1980s*

Research Bulletin No. 241

THE CONFERENCE BOARD'S 1990 HUMAN RESOURCES OUTLOOK

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The Conference Board's annual meeting of human resources experts took place on November 9, 1989. Panel members discussed the current economic situation, compensation trends, human resources developments, and political events. This process provided the predictions for 1990 reported in Table 1. The views quoted were submitted by the participants in writing before the discussion.

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Looking forward into the 1990s, the Outlook panel expects initiatives in human resources that concentrate on recruitment, development, and organization of a multiform workforce. The economic outlook for the year 1990 includes stable, low growth, no increase in inflation, and no change in unemployment or in wage trends. There was a sense that "getting down to business" in the coming decade will require much more effective use of people in the corporation. Because many traditional molds were shattered in the past decade, managers are in a position to apply more innovative, productive practices.

What created such an opportunity? It seems clear that intensified competition applied strong pressure for cost-cutting, especially among large and mid-size enterprises. This forced the questioning of nearly all conventions and traditional thinking. Competitive circumstances within a particular business line introduced vigor and innovation; follow-the-leader behavior was set aside. "Delayering," restructuring by divestiture, and other business transformations reverberated in human resource adjustments throughout the decade. As a flexible payroll became essential to survival, compensation strategies were reviewed from bottom to top.

The conclusion is that businesses have become far more adaptive and flexible. The Outlook panel regards the 1990s as a period of opportunity to use and further develop the new insights gained during the "workout" of the prior decade. This, of course, is the view of survivors. It is an optimistic and energetic viewpoint, shared by all panel members, that the 1990s will see great improvements in human resource management, and therefore in the operation of American business firms.

Panel members also noted that the economic considerations that dominated their conversations during the early part of the decade were less central to today's human resource managers. Their discussion, reflected in the following pages, clearly focuses on human resource philosophies; problems with defining appropriate business activity in a society where employee qualifications cannot be taken for granted; and the social costs that, deliberately or not, are borne by enterprise. The *effective use of resources*, a concern internal to each business, is now ascendant. In a sense, this is the juncture point between economics and management.

Nevertheless, the setting for this activity is economic. Therefore, after consideration of recent trends and 1990 outcomes, the panel reached the conclusion that there will be no recession next year. In the data from their forecast, however, a further slowdown is apparent. (See Table 1.)

Table 1: Forecasts for 1990 by The Conference Board's Human Resources Outlook Panel

	Median	*Range*
Increase in employer costs for wages & salaries in private industry	5.0%	4.7 to 5.4%
First-year wage and benefit increases in major union contracts	4.4	3.0 to 5.1
Increase in labor costs per unit of output in manufacturing	2.0	1.0 to 4.5
Rate of inflation (average increase in Consumer Price Index)	4.5	4.0 to 6.0
Unemployment average during 1990		
First quarter	5.2	4.0 to 5.5
Second quarter	5.3	4.0 to 5.7
Third quarter	5.4	4.9 to 6.0
Fourth quarter	5.4	4.8 to 6.2

With regard to wages, panel members foresee a slightly higher rate of increase than now prevails. The Employment Cost Index for wages and salaries (excluding benefits) has risen 4.4 percent among private industry workers in the year ending September 1989, and that rate is rising faster in the third quarter. The panel is expecting 5.0 percent during the year 1990. This wage trend is exclusive of benefit costs, which are rising at a rate of 6 percent in private industry, according to the Bureau of Labor Statistics. For union contracts, the panel expects a first-year increase for wages and benefits of 4.4 percent, with no meaningful comparison data available. One of several reasons for comparison problems is a strong trend toward one-time bonus payments, which are difficult to price accurately. These lump-sum payments are now found in 44 percent of all major union contracts.

Unemployment is expected to remain at about the same level in 1990 as it has throughout 1989. This implies job growth commensurate with labor force growth—slowing recently, and expected to be about 1.5 percent next year. The panel is also asked to consider the quarterly rate, in order to detect whether a recession lies inside the averages. The range for its quarterly forecast shows a few members expecting somewhat weaker employment markets toward the end of 1990, but no recession. However, the member from Canada mentioned that unemployment is now about 9 percent there (7.3 percent adjusted to U.S. definitions, according to the Bureau of Labor Statistics). He expected rising unemployment in Canada, reaching 11.5 percent in the second half of 1990.

Inflation is forecast to hold close to its 1989 rate throughout next year, with a range so close that clearly no one fears a price explosion. One of the big contributors to consumer inflation rates is health care costs, a subject separately discussed by the panel and covered in this report on pages 20-25.

The panel's expectations about unit labor costs in manufacturing contain two elements: productivity and compensation. That is, if productivity rises at the *same rate* as compensation, labor costs per unit of output will not grow. However, the panel is forecasting an increase of about 2 percent, with a fairly wide range of views reflecting the dual elements involved. Combining this 2 percent forecast with their general prediction of compensation rises of about 5 percent, this implies a manufacturing productivity gain of about 3 percent during 1990. At the end of the third quarter this year, the 12-month increase in manufacturing productivity registered at 2.4 percent. Here, again, the panel is optimistic, confirming its "no recession" view. In fact, a median forecast of that much productivity growth implies that most panelists think that manufacturing will not stagnate at this late stage of a long expansion.

AUDREY FREEDMAN
Management Counsellor
The Conference Board
New York, New York

The "Changing" Workforce

Employers are meeting with new diversity in the labor market of 1990, and they are changing their human resource priorities to adapt and gain competitive advantage in that market. Human resource policies and practices of the 1970s were formed in a period of rapid labor force growth at a rate more than twice as fast as today's. With such a plenitude of young applicants, employers could—and did—focus their efforts on screening and "creaming" for the best, according to their evaluation of job requirements. Under these conditions, there were only a few disturbances in the substance of those requirements, notably government-encouraged affirmative action compliance. For employers of the 1970s, it was a buyer's labor market.

Gradually during the 1980s, three things started shifting. The most important was a gradual retardation in rates of growth of the labor supply. Second, the composition of the shrinking new entrant group was different: it was increasingly comprised of women and immigrants. Third, the new workers had different educational and social backgrounds because of slowly-developing changes in U.S. communities and families. The confluence of these waves of change has affected labor supplies in major ways.

At the same time, as noted before, competitive pressure forced business to use its resources in more productive ways, to seek efficiency. Seven years of economic growth tightened the labor market, nevertheless. Business-as-usual has never been the same since. One of the panel members observed:

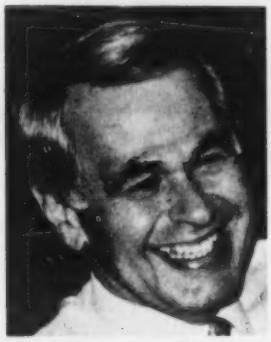
> "It's comfortable driving the same car always. But the road is different all the time. My company is different all the time. Managers and trainees used to be male MBA

WASPs from a few top schools; now they are more varied and more local in origin. Even the business itself is more varied."

Irving Margol described how these changes have affected his bank:

"On the West Coast, it is not only a labor-shortage problem. It is the changing demographics of a workforce in which women and minorities are the dominant players. Therefore, workforce diversity becomes primarily a *staffing* issue: how to attract, retain, and manage this type of worker."

REX D. ADAMS
Vice President, Employee Relations
Mobil Oil Corporation
New York, New York



IRVING MARGOL
Executive Vice President
Management Services Group
Security Pacific National Bank
Los Angeles, California

Before reviewing how the changed workforce has affected recruiting and training, as well as management itself, the panel considered what values and new thinking can enter the corporation through these new workers. It seems clear that lower-level managers are the ones most closely in touch with the new diversity, and must respond to it. The higher the management level, the more a manager must adhere to corporate norms and the functional commands of the business. Panel members agreed that the stress falls on first-line supervision.

Rex Adams said:

"The changing demographics of the workforce have made managing diversity a critical corporate issue for the 1990s. Managing diversity has become a buzzword not because it is a trendy idea or as a followup to affirmative action, but because it is a necessary response to major social change. The fact is that we face a rapidly growing elderly population and a shrinking pool of young people entering the workforce. The key issue is the state of the educational system. The country has reached a stage where there is a startling mismatch between the product of the high schools and colleges and corporate America's needs.

"While the demographics of the workforce shift, the composition of the American family is also undergoing tremendous change. There is significant growth in the number of dual income families. The traditional family, consisting of an employed husband, a wife at home, and children is well on its way to becoming extinct. The result is that full-time parents, whether single parents or part of a dual-income household, are now also full-time employees.

"The changing composition of both the workforce and family structure has given rise to the corporate need to learn to manage diversity. The agenda includes: policies that embrace heterogeneity, practices that value it, and development of training and resources that allow the workforce to be globally competitive.

"The tension between providing the flexibility that managing diversity requires and maintaining structure and control will dissipate. Management's objective is high employee productivity. In the past, such productivity resulted from a system built on structure and control. To achieve productivity gains today, a flexible management style is key. Management values will adapt.

"Large corporations will devote more of their variable employee cost dollar to recruiting, training, retraining, retention, and development. They will create a more diverse workforce without any lowering of standards. As more people realize these actions are based not on virtue but on necessity, the climate that will evolve will be one of merit and contribution regardless of sex and race."

Recruiting, Selecting, Training a Diversity of Workers

Labor shortages create equal opportunity. In critical ways, also, labor shortages undermine companies' emphasis on testing, interviewing, and screening out poor candidates from the abundance of available applicants. Mitchell Fromstein explained this shift:

"In view of the current labor shortage, it is logical to expect changes in recruitment, selection, and training among major employers. The changes will begin slowly but accelerate as the constraints accumulate.

"The changes will focus more on process than policy. Policy changes have been made in the first stages of confronting short labor supply. Most companies have considered the necessity for addressing older workers, women, working mothers, and those with education or experience deficiencies. The decisions have been made to widen the gates of entry to the workforce.

"The problem is that very few workable solutions have emerged as to process change that will accomodate these niche supply sources. We must now focus on 'how' rather than 'who' to achieve tangible results. Process change will require a basic change in the way workers are hired and maintained.

MITCHELL S. FROMSTEIN
President
Manpower, Incorporated
Milwaukee, Wisconsin

"Recruitment since the post-World War II period has centered around a 'creaming' process in which positions are advertised seeking a large number of applicants. The hiring process is then centered around an elimination of those people with limited experience and capabilities—with the ultimate result that the 'best of the bunch' emerges as the hire, while the 'rest of the bunch' is thrown back into the sea of unemployed jobseekers.

"It is a wasteful process that works only when jobseekers are available in very large numbers. A new process would need to acknowledge that recruiting will produce a much smaller applicant pool and that these limited resources need to be conserved rather than squandered. It is a process centered on utilization rather than creaming.

"With utilization as a new objective, employers must develop a broader and more professional information-gathering technique that tries to qualify everyone for something! Human resource departments will need to abandon the search for the one best candidate for an open position and, instead, examine all qualifications carefully with a wide variety of positions in mind. A company needs to increase the coarseness of its screen as the amount of material passing through it decreases markedly.

"The selection process appropriate in a shortage market will change as well. It will require broader skill-measuring devices that can identify hidden skills of which even the applicant herself/himself is unaware. The present way of testing devices is inadequate to meet this need. The tests are outmoded, misdirected in terms of today's required skills, and inaccurate in terms of utilization objectives.

"Skills that are today seen as 'unskilled labor' characteristics must be identified and labelled, described, and understood. The two newest skills in that category are proofreading and sorting/checking. While the world at large looks for machine operators, welders, and lathe operators, over half of unskilled positions in plants and offices require these two 'new' skills.

"How, in fact, I can be so certain of these observations is a proper question. One needs to understand that the temporary help industry was born in the labor-short market of 1948-1952. It has, ever since, found it necessary to staff up in a shortage market because only a limited number of workers are willing to work on a temporary basis. Consequently, we have had to develop these described techniques to survive."

One of the panel members agreed to the point of saying: "Forget credentials. You're an idiot if you rely on credentials and grade point averages. You have got to find competencies within people now." Another added: "Operating managers who have to meet the profit-and-loss bottom line are more likely to hire what they need, not what credentials tell them to hire." Gene Remoff observed that recruitment costs are going up sharply:

"Anyone who has had to do recruiting in any kind of tight labor market knows that a major dimension in getting the job done is TIME. Generating candidate traffic, screening through candidates, arranging the logistics of candidate visits (particularly with multiple interviewers), getting management agreement on who should be extended an offer, getting that offer accepted by the candidate (or going back to the beginning to find another one) and then finally arranging the employment start are all consumers of time. In most corporations this work is done by managers whose primary responsibility is to operate the business unit, not do 'personnel work.'

"Operating managers who now have to recruit as well as select are looking for help, if for no other reason than that it's taking too much of their time. HR functions that weren't staffed to give this kind of support are looking for ways to respond to this need. Most commonly, area recruitment offices are appearing on the landscape to cover businesses that are geographically dispersed in small units, such as retail chains, small branches of banks, business service providers such as maintenance, food service, etc."

GENE R. REMOFF
Vice President, Human Resources
ARA Services, Inc.
Philadelphia, Pennsylvania

At this point, a panel member observed that some of the weakest human resources staff is in recruitment and selection functions. Why? Why is the critical intake function a dead-end job, and the employment interviewer the lowest on a personnel totem pole? Another panel member noted that interviewers look for short-cuts, "red flags," conventional points for filing a candidate rejection. That is what Mitchell Fromstein is arguing against with his views about "screening in." The best way to recruit now is, first, remove the irrelevancies buried in job specifications. Then, consider those skills for which the company is willing to train, and remove them from the "requirements" list. What remains is the basic qualifications needed among new recruits.

One panel member exclaimed: companies are willing to spend "untold amounts of money" to recruit and select at top levels (where executive search is used), even though there is no shortage of candidates for such top jobs. But at the bottom, where there are few candidates, there are *no* recruitment efforts or selection processes, and the weakest and most conventional methods are used. This is the crux of today's business problem.

Specific industries or groups of industries have strategies narrowly applicable to their situation. Rex Adams said:

> "In a hi-tech, capital intensive industry where significant shortages of engineers and other technical skills are beginning to develop, companies will need to:
>
> • Help expand the pool of students entering these disciplines, focusing greater effort on women and minorities. This will include intervention beginning at least at the seventh and eighth grade level to encourage these students to stay in school and enter non-traditional disciplines.
>
> • Identify promising students earlier, at the freshman college level, and cultivate relationships through meaningful summer jobs and college relations programs. Encourage universities to develop stronger outreach and retention strategies for women and especially minorities.
>
> • After employment, be able to offer challenging work and responsibility early, and be responsive in policy terms to family life issues for women and dual career families."

Alan Ewalt is dealing with severe shortages of hospital personnel, among service and professional personnel:

> "In some cases, these shortages have limited a facility's ability to provide services such as curtailment of elective surgeries. As a result, health care managers have changed the recruitment process dramatically.

ALAN R. EWALT
Senior Vice President
National Medical Enterprises
Los Angeles, California

> "The planning part of recruitment has become much more important as lead times for filling positions is more protracted. A hospital or nursing home that projects a need for a nurse or physical therapist begins recruiting or making plans to find that individual three to six months and even a year ahead of time instead of waiting for that opening to occur. Recruitment is begun earlier with greater emphasis being placed on recruiting at the training site (professional schools). There is renewed emphasis on career days at the high school level; recruitment has gone from routine to a creative, energetic effort.
>
> "We have expanded recruitment on a global basis, too. We have recently been to mainland China, where we recruit health care workers with skills and English language capability. Twenty-five of these are now in our nursing homes in Boston, where they work alongside nurses recruited in Ireland and the Phillipines."

Irving Margol is turning to "advertisements in foreign-language newspapers, radio, and TV stations." Moreover,

> "We are recruiting at shopping malls and sports events; we put signs in subways and buses. The big shift is to new sources for finding applicants.
>
> "Security Pacific will have to present itself competitively, emphasizing the desirable aspects of working with

us: our benefits, career advancement opportunities, our credo as a foundation for shaping the workplace." In other words, market the job.

Not everyone on the panel felt that diversity is developing throughout corporate America. David Lewin said:

"The major insight offered by commentary about workforce diversity is that the supply of 'traditional white males' to fill current and developing job vacancies is quite limited relative to the supply of women, Hispanics, Asians, and other so-called minorities and non-traditional groups. What I believe to be the central issue here is the availability of a skilled labor supply to fill the types of jobs that will be created in the 1990s. The fear is that labor shortages will be deep and sustained. Consequently, workforce diversity may be a euphemism for 'expanding the labor supply.'

"Alternatively, if the leading interpretation of work force diversity is one that emphasized the desirability of a mix of workers of various ethnic, racial, and even religious characteristics, then in effect we are asking business organizations to be the engine that drives a particular public policy objective. I believe that this objective is increasingly undergoing questioning and may come to be refuted: namely, diversity for its own sake.

"In fact, many business corporations are already encountering the problems of excess diversity—oversupply of Asian engineers, oversupply of female word processors, an influx of Indian sales workers and financial traders, etc. Diversity is a double-edged sword. On the one hand, it appears to be responsive to prevailing fair employment policies and sentiments. On the other hand, it may run counter to notions of merit and nondiscriminatory hiring and selection in the best sense of those terms. And, it fails utterly to stand as a lasting value or objective when the composition of a particular skill group or occupational speciality becomes such that diversity translates into preferences for certain racial, ethnic, or religious groups. For all these reasons, I expect the concept of workforce diversity to undergo a fundamental reappraisal by managers, government officials, and employees.

"As a last thought, you will observe that there is one major area where workforce diversity does not appear to be currently practiced or likely to develop—among senior executives and managers of corporations. This group remains largely white, male, and non-ethnic. Unless this changes, one wonders if workforce diversity is favored for the troops but not the commanding generals of business."

Madelyn Jennings summed up the discussion, linking it back to the diverse workforce, and moved it forward into training issues:

"Scarcity of young workers and certain skills will, in fact, cause real equal employment opportunity to happen.

DAVID LEWIN
Professor of Business
Columbia University
New York, New York

It is inevitable that there will be less homogeneity. That will be constructive and could represent a strength for American business. The companies that will do well are the ones already on their way with minorities and females at many levels. Their managers are used to managing diversity and also, the managers represent it. Business survival itself will dictate tolerance and, in fact, openness to diversity.

"Effort must be more targeted on finding nontraditional hires such as retirees, older workers, minorities, disabled workers, homemakers. Employers will become more creative about the potential of career transitions, such as from classroom teacher to corporate trainer. Managers will be taught stronger interviewing skills, and training will become part of the recruiter's enticement.

MADELYN P. JENNINGS
Senior Vice President,
Personnel
Gannett Company, Inc.
Arlington, Virginia

"Regarding selection, managers will be broader about who can fit here. The person's potential and applicable skills will take on much more importance rather than things like sex or color or college connections. We will be more specific about job requirements. We will figure out ways to test literacy. Reference checking will be more successful because companies will risk defamation complaints to tell the truth about former employees. We will be more careful at ferreting out workers' compensation problems in advance.

"As for training, there will be much more of it. Diversity does not necessarily mean lower productivity, but

it does certainly mean that more time and money will be spent teaching some employees basic skills. In fact, training will probably be one of the big growth industries of the 1990s to prevent professional obsolescence of the people that we have, and for those who are victims of our poor education system. Of course, technological change will require more training, too. There will be more self-paced, computer-based training, which will be delivered inexpensively compared with today's on-site methods. Product quality and customer service will be mandatory training for all."

Irving Margol agreed with her, and described his bank's new training programs:

"Of more importance will be alternate delivery systems for training. They will be more technically sophisticated and learner-controlled. For example, at Security Pacific we offer the option of an Electronic University Network for employees to acquire university-sponsored degrees, through personal computer learning. Additionally, we are moving away from classroom lectures and experiences to videotape, audio cassettes (so employees can learn while commuting), and self-paced workbooks and manuals. We are even experimenting with correspondence courses. On our horizon is the possibility of interactive video, allowing for self-paced learning in an entertaining, TV-style format. It does require substantial initial capital outlays, but it is not trainer-dependent."

Gene Remoff referred to the pressures that are turning employers into what he called "the imperative educator":

"We talked last year about the implications that labor shortages have for selection and training. Much of what were major issues then are still with us today. They include poor educational preparedness and metropolitan transportation systems controlled by suburbanites and designed to get them into the city in the morning and home at night, rather than as access vehicles for the inner-city unemployed to fill open jobs in suburban office parks and shopping malls.

"We also touched on job redesign and how employers will find it necessary to accomodate job configurations to the capabilities available in the labor supply. Of course, it's not that simple, because that is not where employers are trying to go. In an intensifying competitive market for products and services that can take on the me-too appearance of commodities, the smart management tries to differentiate its offering. To be distinguished as to quality is a powerful differentiation. In services (and increasingly in goods production) this includes a human dimension. How your firm is presented to your customers is in the hands and hearts of those employees who touch the marketplace for you. In many services, that's most of your employees.

"Not a very large portion of the workforce is good at serving others. Not only must an employee possess the skills required to create and deliver the service, but such an employee must possess and be comfortable with communicative skills, respond tactfully and empathetically to irritated or anxious customers, and generally have a good hold on his or her self-image.

"Jobs require greater competencies in other respects. The ability and freedom to identify and solve problems (and seize opportunities) is increasingly being pushed down in the hierarchy to the work group and individual. Customers are impressed with the ability to fix something gone awry, as much as (and sometimes more than) a product or service that reproduces in a steady, dependable fashion.

"Employers are looking for more employees who have these kinds of attributes. They are abilities we did not demand in the 1970s. And, we are looking for them in a tight market increasingly diverse with regard to gender, race, language, family structure, and mores. Clearly, we must devote increasing resources to the training and education of such workforces."

Corporate Culture

The panel spent some time discussing the culture of large business organizations. One panel member noted that authoritative (not authoritarian) structures, rules, and processes will remain, even after an influx of varied kinds of workers. He noted that new parts of the workforce are more comfortable with such structure, because they can feel there are objective measures, and know where they are and how to succeed. In a formless system, the possibilities of arbitrariness and subjective judgment, on the part of top management, are threats to minorities. Another panel member noted that retention is good only where people feel that they can, in fact, get ahead. With a reasonable structure and objective judgements, workers are directed more toward conserving the business than office politics.

Addressing business culture led to a discussion of the "anything goes" atmosphere that a few commmentators celebrated a decade ago. In most companies, it did not last for long, especially as the businesses grew. Mitchell Fromstein observed:

"Homogeneity, in its various forms, provides the basis for a corporate culture. I like homogeneity in a group. It is easier to grow it, manage it, and relate to it. Culture is the bedrock of enterprise growth and efficiency. Companies will likely accept diversity at the perimeter, rather than inviting it in. If one wants *in*, at least a modicum of conformity to established values and rules of conduct must be demonstrated.

"One can work in a corporate environment without belonging, but cannot belong without practicing the norms of the group. So, it is logical to assume that diversity will be tolerated but not universally accepted as a cultural characteristic and that it will be somewhat abandoned at the earliest opportunity.

"Even the renowned diverse environment of Steven Jobs' Apple Computer has undergone a return to normalcy under its new management. It has found that the needs of customer service and the perceptions of potential buyers are better addressed with the diversity omitted and a stable, uniform culture emphasized. This is the strategy of IBM."

Supervision

A free-form discussion of management styles followed. Some participants felt that the old "turnover" mentality, with regard to lower level employees, won't work in the 1990s, because replacements are so difficult to find. This alone is causing a change in supervision. One of the service business executives observed that his company differentiates itself by the way that the lowest-level employee provides service. That employee's attitude and behavior are the marketing tool. Another added: "When you look at the costs (in productivity) that are incurred by companies that think they can directly supervise all employees, you realize that much can be gained by treating employees as intelligent. So, go back to the most basic activity and find out from the worker what is needed, then systematize it and trust that low-level worker." One service company executive added: "We build some measure of trust that the job will be done, and we introduce systems and structure that create that trust."

Madelyn Jennings observed:

"Although a greater number of jobs are those in which the work itself is done autonomously, the work is part of a bigger picture and people are often reliant on teams for the end product (be it service or manufactured products). This calls for the kind of supervisor who could also operate effectively in an academic environment or directing a symphony orchestra.

"In addition, managers must be less authoritarian because workers today (regardless of low or high autonomy jobs) won't stay long working for a classic Theory X-style manager. Our training director has this to say: 'When companies talk about customer service (the hot button today), they're really talking about empowering employees to make decisions and act at the lowest levels of the company. We used to call this quality and tried to do it through quality circles. No one has yet got it right because, they push involvement, action and decisions down the hierarchy without sufficient attention to whether they're selecting people who are *capable* of making such decisions. They are assuming performance and creating reward systems that make it worth the employee's time and effort to do the job situationally rather than automatically.' We talk about and even train people to be part of democratic, autonomous work groups to provide better quality, service, whatever. But few companies change their fundamental cultures to upgrade hiring and salaries, or to do significant reward, recognition, salary systems to differentiate between good and poor performance. We don't spend the time on the little jobs and they're where service happens—or doesn't. And we *don't* know how to manage this kind of worker to provide the flexibility it takes to be effectively autonomous. A hotel housekeeper still has to do ten rooms or face the consequences which mean she/he's unlikely to go the extra mile when something more could be done to make one or two rooms better."

David Lewin advocates participative supervision philosophies:

"Traditionally, employee participation has been directed at current employees, especially the core workforce. Such employee involvement initiatives have both assumed a certain baseline level of current employee commitment, and sought to enhance it. Increasingly, however, employers will attempt to use participation to attract new employees. It will be emphasized in the firm's recruitment activities, in its selection—perhaps including hiring based in part on an applicant's receptivity to and preference for participation—and in its training.

"The conundrum in all of this is that not all businesses are in a position to offer participation to prospective employees, and not all prospective employees place involvement high on their preference or utility list in deciding to accept a job offer. So, an employer must assess his industry and labor market to determine if participation emphasis in recruitment, selection, and training fits the business. He also must assess the supply of labor available to the business to determine if job applicants are (or are likely to be) attracted by involvement. A diversified financial services firm, for example, may place little or no reliance on participation to attract new personnel, and may have to pull the pay lever to overcome such a shortage. In contrast, computer manufacturers, medical services, or retail trade business may determine that offering participation to prospective employees makes good business and labor market sense. On balance, I expect to see the recruitment, selection, and training strategies and policies of U.S. businesses place considerably heavier emphasis on participation in the 1990s as a way to overcome current and prospective labor shortages."

Related to employee involvement is the autonomy that is involved in some job functions. Certainly the kind of

supervision that can be exercised over a relatively mechanistic job function (such as assembly work, or making change in a cashier's booth) is changed by the independent judgment involved in service jobs from travel agent to day-care worker. Alan Ewalt said:

"Job autonomy is not new, but it is growing. It is wonderful. And as it proliferates, managers and executives must adapt. They must develop and manage more collegial relationships as opposed to traditional hierarchical relationships. This is especially driven by the disbursement of data processing information which no longer flows simply along organizational lines. Training needs are significant, especially for supervision, because of the lower frequency of direct contact with subordinates. Therefore, the supervisors need to be especially good communicators and problem solvers in dealing with people issues."

Gene Remoff prefers the term "responsibility":

"Earlier in discussing labor shortages I mentioned the tension between the availability of labor with the appropriate attributes and the desirablility of giving employees a greater amount and variety of responsibility.

"Not so incidentally, I prefer to use the term 'responsibility' to describe what managements are trying to delegate rather than 'autonomy'. As you recall, responsibility has been a traditional construct that we've examined in organization design and job evaluation systems. For years, H.R. practioners have talked about providing a measure of 'authority' commensurate with the amount of responsibility assigned to a job, if management was going to make a job design fair and doable.

"From management's point of view, 'autonomy' is a new, less thoughtful, term for an old concept of responsibility commensurate with authority. Underlying any apparently autonomous job has be a considerable (and sometimes anxious) concern at higher levels about whether the quality of the work being 'turned out' properly represents what senior management wants to present to its marketplace as the company's offering. The employer wants and needs to feel that the so-called autonomous employee understands his or her accountability and responsibility for delivering the product or service at the right quality level.

"This traditional concept was until recently applied almost exclusively to managerial and professional jobs. And the incumbents in those jobs had the access to senior management that permitted an important dialogue on top management's responsibilites. That dialogue has typically centered on what kinds of resources the company would make available so the incumbent could get the job done.

"Now we are increasingly engaged in the same issues at the deepest levels of the organization, with jobs and people much more remote from top management, with a diversity (and sometimes paucity) of education, skill, and personal interests, with a less clear understanding by the worker of what the work should look like when done right, and with a concern that the tools, drills, materials, and systems made available to them by management may not be good enough to get the job done.

"The desire for autonomy that we had predicted in earlier years would be so strongly demanded by our increasingly better educated, more worldly entrants into the work force has to some extent surfaced in the 1980s. But so has greater pressure from employers for lower-ranked employees to take on expanded duties and enhance their effectiveness. We increasingly want employees to do the right thing, which isn't necessarily the same as doing your own thing.

"*Effective* autonomy for employees therefore requires better training, planning, standards, systems, and orchestrations by management. Those words seem incongruent with autonomy. They are very compatible with the concepts involved in delegation of responsibility and authority."

Irving Margol attributes increased autonomy to the cost-cutting waves of the 1970s discussed earlier in this report:

"I believe that autonomy in jobs is occurring because of the restructuring of corporate America. There are fewer layers of supervision and fewer managers...autonomy must be built into the design of jobs. People are placed in a position to manage themselves.

"Autonomy is only countered through specifically defined standards and results. Senior managment is in a position to define *what* is needed, but has sacrificed defining the *how's* of accomplishing it. For example, Security Pacific Bank managers have standards for deposit growth, consumer and real estate loan growth, fee and service income; and performance standards encompass expense control, new account relationships, and performance on promotions. At no time do we tell the manager *how* to achieve these goals and meet standards. They act autonomously, but with very finite standards (and very definite) consequences for non-performance. This style of managing is carried through to subordinates as well—operations officers, loan officers, and in some ways, to tellers.

"So the impact is a three-step management process: define results, leave alone, arrange positive and negative consequences. Elements of training, coaching, and interactive management are removed from the process.

"The art, then, of managing is replaced by the skill of specifically contracting for both goals and results. People tend now to look at having a job, rather than a career. They look for a boss who is specific and *truly* delegates and rewards for performance, not by a system."

Austin Thorne closed the subject of autonomous workers, adding a hopeful note about unionization:

"To me, this question seems to revolve around newly-emerging management styles which are being dictated by technology and international competition. There is no doubt that this trend will continue and grow. The technology end of the question breaks out two ways—some technology requires a high degree of skill-enhancement. In this sense, employers will have to radically shift the emphasis that they place on training. The other side of technology leads to de-skilling—a more regressive step as it were, back toward the old assembly line type of work place... Both have major implications.

AUSTIN G. THORNE
Secretary-Treasurer
Canadian Federation of Labour
Ottawa, Ontario, Canada

"Today's generation will change jobs between four and six times in a working lifetime. Continuing education and training take on an entirely new meaning in this milieu. North America's main competitors are ahead of us in this area and I believe we will have to scramble rather rapidly if we are to remain competitive.

"In my opinion the move toward more highly skilled workers will have a negative effect on union institutions, since they are seen as 'blue collar.' As people become more technologically trained, they will want to move more toward the 'white collar' image. Unions are going to have to be more creative in this area. On the other end of the spectrum, de-skilling, relative to technology, will be a plus for unions, as many of the traditional social problems that unions have dealt with adequately will once again be exacerbated.

"I predict that union mass organizing will take on a whole new meaning in the upcoming decade. The age of collectivity seems to be giving way to the age of individualism. If unions are to capitalize on this and grow in the next decade, the *individual's* concerns must be met front and center. *Service* will take on a new meaning for unions. I predict the unions that will prosper and succeed in this decade will be the ones that latch onto this dynamic very early and do something about it in a major way. Canadian unions are very fast off-the-mark in this area and major trends are developing everywhere. There seems to be a similar move afoot in the United States, through the AFL-CIO. Time will tell."

Unions

The past year has seen some significant union developments. However, as one panel member put it, "The signs are mixed." Strikes have not been as severe since 1983, in terms of time lost. The issues have frequently centered on maintainance of health benefits, rather than increasing wages, benefits, or job protections. Wage increases have been hard to gain, and in fact have been lower than those for non-union employees since 1983. One bitter strike at Eastern Airlines has continued since Spring, and has put thousands out of their jobs, probably permanently. A strike at Pittston coal company, over health benefits has continued for months without settlement. The proposed buyout, with union participation, at United Airlines has so far failed; yet it is clear that union concessions will be necessary to any restructuring. Finally, the UAW lost an employee vote at Nissan's large plant in Tennessee.

Amidst these negative and uncertain signals, there has been organizing success among the support staff of Harvard University. It was a self-organizing effort, primarily among women workers who assist faculty and administration. The local has now affiliated with an AFL-CIO union. Curiously enough, the AFL-CIO placed great public relations emphasis on the Eastern Airlines strike, and on the Pittston coal strike, with marches and appearances by officials. Little notice has been given to the Harvard victory.

Alan Ewalt comments:

"I believe the UAW viewed their dramatic loss in Smyrna, Tennessee as a drop kick to the face. I use the term 'dramatic' because the nation's spotlights were focused on the campaign and the vote was not even close. Further, declining UAW membership set up the Smyrna confrontation as critical to the prestige and future of UAW. The loss was a severe blow to UAW pride, prestige and their future viability, especially in the new domestic Japanese auto plants where industry employment will see its greatest growth.

"The union will not abandon its efforts at the Nissan plant. They claimed 711 votes, which gives some basis for a future election, but further failure could be the UAW's Waterloo."

A SURVEY OF SURVEYS: SALARY PLANS

Organization	Level of Employee	1989 Salary Increase	1990 Planned Salary Increase
		%	%
American Compensation Association	Executive	5.7	5.7
	Exempt Salaried	5.4	5.5
	Nonexempt Salaried	5.2	5.3
The Conference Board	Executive	5.5	5.5
	Exempt Salaried	5.0	5.0
	Nonexempt Salaried	5.0	5.0
ECS, Inc. A Wyatt Data Services Company	Executive	5.7	5.6
	Exempt Salaried	5.2	5.3
	Nonexempt Salaried	5.0	5.1
Handy Associates	Executive	5.3	5.4
	Exempt Salaried	5.4	5.3
Hay Management Consultants	Executive	5.4	5.7
	Exempt Salaried	5.0	5.5
	Nonexempt Salaried	4.5	4.9
Hewitt Associates	Executive	5.8	5.8
	Exempt Salaried	5.3	5.4
	Nonexempt Salaried	5.1	5.2
William M. Mercer Meidinger Hansen, Inc.	Executive	5.8	5.8
	Exempt Salaried	5.3	5.4
	Nonexempt Salaried	5.1	5.2
Sibson & Company, Inc.	Executive	5.9	5.7
	Exempt Salaried	5.3	5.4
	Nonexempt Salaried	5.2	5.2
Towers, Perrin, Forster & Crosby	Executive	5.3	5.6
	Exempt Salaried	5.1	5.3
	Nonexempt Salaried	4.9	5.1

Planned salary increases for 1990 are higher in the majority of cases than the salary increase reported for 1989.* This is the first time in three years that the projected salary increases are generally higher than the actual increases reported for the prior year.

Elizabeth R. Arreglado
Research Analyst
The Conference Board

*The actual change in pay over the previous year's ending payroll is usually less than the anticipated average increase.

Dan Mitchell offered his interpretation of the events at Nissan, with a suggestion to union leaders:

"Bad news for the UAW. They need to penetrate the transplants in the long run for the usual bargaining power reasons. Eventually, if they don't, their bargaining clout at the domestic firms will be undermined, as happened in many other industries in the 1980s.

"Given the loss, however, the UAW might have adopted a different approach in explaining the situation. Had I been a UAW official, I would have said:
our concern is ultimately the welfare of auto workers, not the welfare of the UAW. We are pleased that 70 percent of Nissan workers are content with their current employment situation. If they are happy, so are we. However, we stand by as insurance in case their position should deteriorate in the future. We believe that much of the reason the 70 percent feel so well treated is that Nissan has to remain on its toes since it doesn't want to be unionized. Our threat is what has led to Nissan's current HR policies. For the remaining 30 percent of the workforce who are not happy, we will provide the best representation we can under the circumstances, pursuant to our associate membership program. We will continue to monitor plant safety, for example, and assist members in exercising their job rights through OSHA and in other ways' "

Madelyn Jennings on the UAW loss:

"It's significant! If Nissan relaxed or changed its worker involvement policies, unionization would follow. Keeping employees feeling 'inside the loop,' in terms of the information they need and decisions made, will be even more critical to Nissan in the years ahead."

The group agreed that maintaining the information-sharing and participative systems at Nissan will be determinative, because the union is very likely to try another organizing drive. Mitchell Fromstein said:

"It appears that the appeal of a union has suffered as enlightened management has taken careful steps to eliminate commonly perceived workforce abuses. In addition, moving production sites to small rural communities has introduced a workforce that is quite different from the Detroit population. However, I suspect that a union will ultimately appear and succeed at Nissan."

The three factors keeping the union out were: participation, a new plant and new workforce, and strong management opposition. David Lewin, who introduced the second point, elaborated:

"I would not overvalue the significance of the UAW's loss of the representation election at Nissan earlier this year. This was, after all, a first election at a relatively new plant with new capital, equipment, management and employees—that is, the type of work environment in which unions traditionally have not done well. Further, in this new environment, management has practiced high employee involvement and participation, and the Nissan workforce, or a large proportion of it, has bought this approach. Later years and later elections may well result in a favorable union vote.

DANIEL J.B. MITCHELL
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University of California
Los Angeles, California

"At the same time, this election result also underscores certain well-known weaknesses of the U.S. labor movement, the most basic of which is the inability to appeal to modern workers. Most unionists tell us that their organizing successes are largely a function of management weaknesses and failures—defensive unionism, as it were. If managements of U.S. businesses can sustain high employee involvement in decision-making, unions are not likely to make substantial organizing headway. Indeed, the notion of participation by employees shifts from that represented by unionism to that represented by management via involvement programs. If unions are, in effect, being replaced by involvement and participation initiatives of employers, the future of the union movement in the U.S. may be bleak indeed."

Gene Remoff concluded the Nissan discussion with the following observation:

"The significance of the UAW's failure to organize Nissan (so far) lies in looking at who's selling the cars in this country. The UAW has had a membership loss of about 500,000 in the last decade. Its hold on the Big 3 is secure in regard to continued representation of *their* workforces, but certainly the UAW's bargaining clout with Detroit managment is threatened if it doesn't go down the street and organize the new competition.

"But let's not look at the Nissan case as the UAW's death-knell. Despite all the union-avoidance moves that Nissan management apparently made and an all-out management campaign up to the election, the UAW still got one-third of the vote. I don't believe any union could have been more successful than the UAW was in this case. Unions lose elections all the time when faced with the kind of circumstances they ran up against at Nissan. The extent to which managements have gotten more effec-

tive at maintaining non-union workforces has contributed mightily to the reduction in union membership. But, fortunately for the UAW, some firms don't do the job Nissan did here.

"There are still firms, often smaller ones, that haven't set up the conditions to discourage unionization. Particularly when business gets tough, layoffs start and historically generous managements start what appears to be arbitrary belt-tightening.

"There are also places where the UAW can sustain itself. Consider the recent UAW agreement with Diamond-Star (Chrysler-Mitsubishi) to acknowledge and accommodate the team approach to work activity, with broader job classifications being traded for greater employement security for their members. We also want to look at what will happen at Toyota in Kentucky. Their management doesn't plan on taking an active anti-union stance."

At Harvard University, Madelyn Jennings observed, "plantation mentality got its due." Daniel Mitchell described the quasi-public nature of educational institutions, and added that management opposition was not as strong at the university as it would have been in a manufacturing plant:

"The public sector is relatively isolated from market forces. So unions held their own in the public sector in the 1980s. They did alright in still-regulated industries like core telephone service and in quasi-public nonprofits like hospitals.

"Harvard is in the quasi-public sector, even though it is privately administered. It is natural for unions to concentrate in this sector, where the chances for success are better than in the profit-making private sector. The fact that Harvard clericals unionized does not mean that IBM clericals will. But it could mean that clericals at other private universities follow the Harvard mode.

"One thing said about Harvard is that it showed that white-collar workers can be organized. Of course, this was already well established in the public sector. In fact, there are many white-collar workers who—if it were perceived as costless—would vote for union representation. (Not a majority and a smaller percentage than would have been the case a decade ago, but still many in absolute number.) In the profit-making private sector, however, it is seldom perceived as costless, since management resistance is generally much stronger than it was at Harvard."

Rex Adams disagreed on the strength of managment opposition:

"Except for the academic and selected white collar labor markets, the organization of Harvard's clerical workers is a non-event. Given Harvard's unique stature within that community, however, it was an interesting non-event and may contain some lessons for union efforts on other campuses. As you know, the university strongly resisted the union's organization campaign, disputed the election results and, some would allege, dragged its feet in the intial stages of barganing. The irony of Derek Bok [the president of the university] writing to employees to say that he supported unions but that a union was not needed at Harvard, could not have been lost on too many observers."

There were several comments about union involvement in buyouts that are useful in analyzing the meaning of joint ownership—whether or not the United Airlines arrangement goes through. Austin Thorne is very much in favor of a trend he sees developing:

"Employee ownership, such as the deal to buy United Airlines and others, is a major trend whose time has come. Over 10,000,000 American workers now belong to some form of employee stock ownership program. The AFL-CIO represents approximately 13,000,000 workers. When these two are compared, it gives one a fair idea of the significance of the trend to employee ownership.

"The ESOP and other variations are here to stay. I predict that they will continue to grow at a rapid rate. In an evolutionary sense, this bodes well for the capitalistic system, (i.e., the broadest possible participation as 'true owners'). It also has a major impact on the productivity question. A large portion of traditional management will be drawn in that direction over the next decade, since it makes sense from several angles. When one views the massive restructuring going on in the Soviet bloc, with their move toward us, it makes eminent sense that a North American type of 'perestroika' should be in the offing for us. Both systems have their deficiencies and somewhere the 'people deficiencies' from our perspective will have to be addressed.

"The 'me' generation will demand more and more worker autonomy. Non-progressive traditional management will struggle because of their normal desire for structure and control. There is a new avenue opening up here for unions. Democratically-structured ESOP's go a fair way down this road; hence, their rapid success rate. Traditional companies are going to have to deal with this problem (their problem) in tomorrow's market place."

A less positive view was expressed by Mitchell Fromstein:

"This is a unique situation that I do not feel represents a trend. As the union takes over (if it does), it will need to establish management roles, and then the old equation reappears. Management interests and Labor demands will come in conflict in one way or another. You will simply have conflict *within* the union ranks rather than clear sides. In some ways, this could destroy the

union. In the UAL case, it may be the pilots vs. the machinists—a form of internecine warfare. The only similar case that I know of is the Israeli Union Histadrut's ownership of Coor Industries, a manufacturing conglomerate. It worked alright for one generation. It is now in shambles and near financial ruin.

"Natural adversaries should remain in their own spheres, in my opinion. They ultimately cooperate where interests overlap or intersect unless some third party intervenes, as in Eastern Airlines, and disturbs the power balance."

Outsourcing

During the 1980s, competitive pressures forced companies to respond quickly to changing conditions, and rapidly to re-arrange their business operations. Strategic outsourcing may be the most significant advance in business management during the past decade.

One strategy was to define some parts of the business that could be contracted out to other firms. Sometimes, such operations continued to be done on the premises, but by outsider-managed workforces. Examples of the *outside* contracted service might be data processing, laboratory testing, public relations, toxic waste handling and disposal, possibly even research and development, and some separable elements of the business' final product or service. An example of *inside* contracting might be food service, maintainence, building service, or security.

These contracting-out moves were actions that restructured or re-focused the business in subtle ways, in addition to making it more flexible. Response-time was shortened because work done on contract can be terminated more easily than a department within the corporation. Moreover, costs can be monitored, and the contract can be shifted to another supplier.

A second strategy was to use more contingent employment arrangements. Increased use of consultants and experts has reduced the staffing required at headquarters levels. Temporary workers are being used systematically, rather than only for vacation replacement. Part-time and limited-period employment is growing as firms seek personnel adaptiveness and speed of response.

The combination of these strategic responses on the part of nearly all industries has created growth opportunities for a broad sector called "business services," growth in job opportunities beyond the traditional career modes, and unmeasurable small business opportunities.

Madelyn Jennings, speaking mostly about the use of experts and professionals, said:

"Cost flexibility can be improved, of course, via outsourcing and subcontracting. Many companies have used outsourcing to lower their medical costs. Others have done so to limit the trauma of major shifts in employment levels. The demographics of the 1990s would suggest continued broad use, both because of scarcity in certain key skill areas and because many would like to work fewer hours or weeks a year. It suggests a decade where a person's competencies can be moved from project or company to project or company. And, where loyalty would be to one's own skills rather than to an individual firm. The complexity of certain business issues, e.g., taxes, benefits, has been a boon for consultants. They will continue to be the way companies get expertise in technical areas. The downside is that consultants don't usually have a feeling for one's culture."

Mitchell Fromstein, whose company is the largest supplier of temporary help in the world, covered the entire subject of outsourcing by categories:

"The decade of the 1980s will be noted in economic history as the 'Trim and Slim' era for major U.S. business firms, in an effort to be competitive in world markets. This process has been marked by a conscious and continuing effort to increase productivity by reducing the labor content of production and eliminating fixed costs of production support service. This process of achieving cost flexibility quickly spilled over into companies of all sizes in all industries where workforce expenses had risen to dangerously inflated heights. The form of this effort varied according to the nature of the intended cost reduction.

"Outsourcing was used in cases where a function was clearly severable from normal processes. Notably, services such as plant and building security; waste disposal; cafeteria and catering; in-house printing; cleaning and maintenance; and transportation and travel have been contracted to service companies specializing in those services, removing them as fixed cost items and, in most cases, increasing the efficiency of delivery and cost.

"Subcontracting has been used in cases where an entire production or assembly process can be completed off-premises at a lower cost and with reduced capital investment while maintaining item quality and the ability to eliminate the process at will.

"A third technique, 'non-permanent personnel resourcing,' has been used to provide interim staffing support where flexibility is desired but control over the work process must remain in the hands of the company management. The use of temporary help services, technical services providers, and computer programming services are prime examples of this trend. These off-payroll support services have provided a substantial payroll commitment flexibility in both production and service support elements through an extended seven-year growth cycle.

"In the case of temporary help services, the U.S. Bureau of Labor Statistics (BLS) has given the industry

a label, *Personnel Supply Services*, an SIC code, and a monthly tabulation of the number of people supplied for third-party use. The industry was a little-known resource prior to 1980, supplying 200,000 to 300,000 workers as emergency or seasonal workers. Today, over a million people a day are supplied to business firms, with emergencies and seasonality being replaced by flexibility as the primary reason for use. It is identified by the BLS as one of the fastest growing areas of employment for the 1990s.

"This phenomenon should more properly be called 'contract-in,' as it provides a wide variety of needed skills to an enterprise without an employement commitment in terms of time, cost, or longevity.

"The need for workforce flexibility has created an industry that has upgraded its capabilities as well as its size and now functions as an expert process of matching needed skills and worker characteristics to the precise needs of client companies. As confidence in this process increases, the technique has become more and more a permanent resource to support workforce flexibility. The user has not only eliminated exposure to fixed workforce costs but has the choice of changing suppliers to increase efficiency and effectiveness.

"It is clear that contracting-out and contracting-in, plus subcontracting, has become a preferred method of cost control with flexibility."

Gene Remoff, whose company supplies some of both "inside" and "outside" subcontracted services, said:

"This discussion is one that every ARA executive loves to see surface. It's what we've built our businesses on *and* we apply these same methods and practices to the operation of our own internal business affairs. Our core services are delivered by our own staffs. We hired them, trained them, gave them skill-building and confidence-building experiences. They are our truly precious proprietary product. Everything else is up for grabs. In every functional discipline, we have a few well-positioned experts. They are expected to make decisions on using internal versus external expertise in their areas of responsibility.

"Perhaps it's because ARA is in the service management business, that we accepted (early in the decade of the 1980s) the view that external consultants and service firms might do some things better than we do in functional areas that are not our reason for being in business. Using them offers organizational flexibility well beyond what internal corporate overhead structures have ever been capable of offering.

"Across the country there is a continuing, expanding trend in this direction. While downsizing may not occur with the dramatic frequency and harshness that we saw in the 1980s, it's far from over. Here's why:

"Once senior management begins to experience the variety of improved efficiences and effectiveness that follow the earliest of such moves they accelerate the activity. More and more internal overhead staffs and services are brought into question more frequently and more readily and tested against the use of flexible outside services.

"Labor shortages force an organization to look at not only how efficiently they are using this scarce commodity, but whether or not they want to go through the continuing effort of attracting, training, and retaining specialized categories of employees who are not the core mainstream producers of the company's goods or services.

"As corporations continue to decentralize responsibility for staff support services from headquarters to more competitive-minded operating divisions, these staffs get fragmented and their retention on a just-in-case-we-need-you basis can't be justified. In such circumstances, a divison's decision to use external resources no longer has to be negotiated with the people who used to protect their domain from a powerful roost at corporate headquarters."

Daniel Mitchell has abstracted some theoretical elements from the make-or-buy decisions that took place during the 1980s:

"There are two competing modes of the firm which might be termed *organizational* and *financial*. The organizational model sees the enterprise in somewhat paternalistic terms: a group, a family, a team, tied together, which can be motivated through enlightened HR policies. A key feature of the organizational model is that the firm is seen as stable. Employees are well- paid and turn over slowly. There are career ladders on which to advance and employment security is provided to some degree, especially as seniority increases.

"At the other end of the spectrum, the financial approach views the firm as a portfolio of assets. These assets can be unbundled (sold off), combined with new assets (merged), or, if necessary, scrapped altogether. The assets may be groups, divisions, brand names, product lines. In this model, since the identity of the employer is always changing, there are no stable employment relationships—no guarantees. Long-term investments in employee relations by the firm are not likely to occur. The labor market becomes a spot market, i.e., what can you do for me today?

"The organizational approach was the standard model of good personnel practice for many years. It is associated with stable markets, the Galbraithian idea of long-term corporate planning. And it has tended to be linked to larger, bureaucratic firms. The organizational approach has substantial intellectual/academic support among people who classify themselves as specializing in organizational development, behavioral science, etc. Indeed, as a conceited academic—and recalling Keynes' statement about the eventual influence of 'academic

scribblers'—I would argue that the HR policies in such firms were heavily influenced by academic researchers going back to the Hawthorne studies.

"The financial approach also has intellectual roots, especially because of the ascendancy of finance in management schools. Financial analysis emphasized optimum portfolios; why not look at the firm as a portfolio of assets to be juggled? In addition, financial theory underpinned the financial tools, i.e., debt, used to facilitate the takeovers, spinoffs, mergers, etc.

"Beginning in the 1950s, financial theory questioned the traditional aversion to high debt-to-equity ratios, especially in a world in which tax laws favor debt over equity. One day, Michael Milken heard about this as a student at Wharton and away we went. The financial approach is inherently short-run oriented. It prospers in a world in which firms are continually buffeted by market pressures not of their own making and are forced to react quickly.

"With hindsight, the big growth in the financial approach began in the 1970s. As it happened, in the early 1970s, we unknowingly undertook the most important change in HR public policy in the last 40 years; Nixon abandoned fixed exchange rates. (Another step which was widely supported by academics of the period on theoretical grounds!) The result was that firms could be rendered uncompetitive—or supercompetitive—overnight by swings in the dollar exchange rate. In such a volatile world, you might never recover investments made in good employer-employee relations. All you could do is try and meet the current market price and control costs. This means holding down pay and being ready to lay off or spin off at the drop of a hat.

"Since the economy remains more volatile than it was prior to the 1970s, the financial approach to management—as opposed to the organizational approach—cannot be dismissed as a passing fad. Thus, outsourcing and subcontracting are likely to grow in importance. In effect, firms will judge whether to make or buy on a cost/benefit basis and will frequently decide that buying is cheaper. Having a comparative advantage in producing widgets doesn't necessarily mean that you also have one in payroll accounting or getting the floors mopped. Firms that specialize in payroll accounting or floor mopping might well be able to provide the service at lower cost.

"Despite all of this, the organizational approach is not dead. Many of the successful firms that were written up in best-selling books in the 1980s were organizational. It is possible to be flexible and organizational, as the IBMs of the world demonstrate. Provision of employment security, for example, means that the firm, rather than the employee, covers the costs of mobility. Bur firms may be able to hold down such costs by investing in training and retraining, using a second tier of contingent workers, or using contingent pay such as profit sharing. They may end up with a loyal and more productive group of core employees through the right mix of HR policies.

"Here are two flies in the ointment regarding the shift toward financial firms:

"a) Employees may not like being part of someone's everchanging portfolio. An aging, security-conscious population may push politically for job rights. Current examples are the growth in wrongful discharge litigation, the use of EEO, workers' compensation, and other programs as part of a de facto national grievance procedure, the plant closing act of last year, continuation-of-benefits regulations, etc. These are all symptoms of a population that thought it understood what was in the employment contract and is disappointed. As I have said at previous meetings of the panel, the challenge of the 1990s is to define the employment contract.

"b) Living in a financial world means that it is every employee for himself/herself. You need good basic skills and training to get along, since you can't count on your employer. However, our educational system is not providing those skills.

"A final thought: In a financial firm, the notion that if-you-don't-like-it-here-you-can-always-quit applies. How realistic is the quit option? Answer: it depends on the state of the economy. In a tight labor market, quitting is easier. Hence, the political success of the financial model will depend on the macro performance of the economy, i.e., full employment. (Remember when people used to worry about full employment?)"

Irving Margol illustrated the implications of a career and non-career workforce within the same business:

"Security Pacific (and other major financial institutions) have gone to peak-time employment practices. That is, rather than hire full-time 40-hour-per-week tellers, we hire part-time employees to serve during the heaviest banking periods (Mondays and Fridays, the 1st and 15th of the month). This practice allows Security Pacific to have much-needed strategic flexibility, and to control costs. But, those who we hire cannot be expected to have the same dedication and commitment as our old full-time tellers. They may have multiple jobs, multiple responsibilities, and multiple allegiances. As their careers are fractionalized, and opportunities for a "career" are not found with temporary assignements, they will require a different style of managing—one in which standards are very clear, and upon meeting standards, rewards are immediate.

"We are now faced with a scenario that may see close to 50 percent of our non-exempt bank population, and 10-20 percent of our exempt employees, fall into this non-permanent category. The questions of managing and rewarding this type of personnel and the organizational dynamics of two work groups have not been addressed as yet. To date, we have faced it as an efficient staffing

process. We must now broaden this issue to encompass the broader issues."

Two nay-saying voices were raised. David Lewin expects that the trend will be reversed:

"For my part, I expect to see a modest return to an emphasis on a "regular" work force in the typical U.S. business in the early 1990s and relatedly, less use of outsourcing and subcontracting, largely because of the risk of being over-reliant on external labor resources. In other words, we shall witness in the 1990s a return to an emphasis on the core work force and a de-emphasis of the peripheral work force among U.S. businesses."

Rex Adams pointed out that outsourcing has not been significant in his industry (oil):

"At best, outsourcing and subcontracting have had a marginal impact on our ability to achieve cost and operational flexibility. Our primary efforts included a structural change to our asset base, i.e. divesting underperforming assets and associated people; modifying our organizational structure by reducing horizontal and vertical layers; overhauling our key systems and decision-making procedures; eliminating systems that hinder flexibility; and improving management practices.

"The oil industry, and, I suspect, many other large manufacturing corporations, has a long history prior to the 1980s of practicing 'outsourcing' and 'subcontracting.' Examples of these practices include seismic data gathering, drilling, refinery turn-arounds, design and construction of capital projects, aviation and marine services, catering, ground maintenance, and management consulting in numerous disciplines.

"Given this history, the 1980s have not seen a significant increase in outsourcing. There may have been a greater use of maintenance contactors and of temporary secretaries. It appears that there has also been some increase in the use of specialist consultants in such areas as benefits design, external legal services and investment advising. This increase has been driven by fluctuating business needs rather than by a deliberate policy to utilize subcontractors. Conversely, we have seen a growth in company-owned and operated service stations; an increase in in-house administration of benefit programs such as annuitant payroll, and a growth in our computer systems headcount, often by regularizing contractors."

Austin Thorne, from across the border and from a union perspective, evaluates the effect in Canada:

"Outsourcing over the last decade has been, and continues to be, from a labor perspective in the Canadian context, a major problem. In that context, Canadian industry has not fallen out any differently on the question than their American counterparts. The decade of 'lean-ness and mean-ness' has been reacted to by Canadian industry in much the same manner as in the US. It has also caused tactical shifts that are of major import in the operations of unions; particularly relative to their organizing efforts.

"From an employer perspective, outsourcing has also been viewed as a welcome and much-needed economic injection to the medium and small business sector. There has been and will continue to be turmoil created in the collective bargaining end of corporate restructuring due to this trend. In a political sense, when outsourcing is done offshore, it has created image problems for industry at the public perception level. The advent of the 'hollow corporation,' in many instances, has helped employers in the economic sense but it has not done much for their corporate image. There is a price that employers will pay for this and I predict it is coming soon."

Drug Testing

Discussion of drug testing produced some mild disagreements among panel members. One panel member stated that drugs are a top management, large-company concern. Testing is done to establish a deterrant, rather than as social policy reinforcement. Yet, companies are finding that substance abuse among employees' dependents is the main cause of rising health claims. At least one panel member thinks that drugs are a "non-issue"; and one feels they should be legalized.

Rex Adams defends the importance of the issue:

"It seems unlikely that random drug testing will gain wide acceptability except in certain regulated industries or special areas where safety is demonstrably a critical factor.

"Mandatory testing will have widening use with varying union reactions depending upon the industry, drug use evidence within an industry, and evolving government regulations. Testing under reasonable cause criteria and pre-employment testing are becoming well established and acceptable responses to the drug problem in legislation, court decisions and collective bargaining.

"Pre-employement testing continues to evidence positive test results of drug use. The range is 5-12 percent among major U.S. companies. The most frequent substances found in descending order are marijuana, cocaine, and alcohol (where tested).

"Within the last six to eight months judicial reaction to court challenges of drug testing programs has favored public policy considerations over privacy and individual rights when balancing the equities.

"The Drug Free Workplace Act has been an important influence on those employers who had taken no action on drug testing. It has also spurred Department of Transportation regulatory activity. It has not been a factor for those companies who already have well established programs."

David Lewin sees a reduction in drug testing by employers:

"The major trend in employer drug testing in the U.S. is increased testing of job applicants. Data from the Columbia Business School Human Resources and Business Performance project show that about 24 percent of U.S. businesses require drug testing for applicants to managerial jobs, 27 percent for applicants to professional jobs, 28 percent for applicants to clerical jobs, and 35 percent for applicants to manufacturing jobs. These are far higher proportions than were reported early in 1989 by the federal government for a sample of U.S. businesses. A secondary trend, though few systematic data are available to support it, is the increased use of random drug testing for current employees.

"As for results, who knows except by anecdote and example? There are no comprehensive data concerning pass-fail rates for employer-administered drug tests. This in and of itself raises a major public policy issue. If an anti-drug policy is indeed a national policy, as it seems to be, then policy is *not* well served by the non-reporting to government authorities of drug testing pass-fail rates. From a public health perspective (as in the case of AIDS, for example), such non-reporting makes no sense at all. Consequently, I expect to see in the 1990s a movement away from privately-conducted drug testing programs toward a government-activated drug testing policy and program. After all, applicants to private company jobs who fail drug tests are not funneled into treatment programs in the way that current employees who fail drug tests or who voluntarily admit to drug usage/dependency are funneled (by employers) into employee assistance programs. Growing recognition of the limits to a private market approach to employee drug testing will, I submit, result in a diminution of drug testing by employers in the 1990s."

Daniel Mitchell suggests that drugs are not an employer issue:

"Last year I said this issue would eventually become as boring as payroll accounting. I still think that is what will happen. Eventually, as the 'war on drugs' fails, it will become a political embarrassment rather than a nifty PR tool. As that happens, and the federal government quiets down (possibly after declaring some kind of victory), the fad will wane in HRM circles. Obviously, certain kinds of employees—mainly those in transportation or involved in safety—will be subject of drug testing. So what?"

Irving Margol thinks that business involvement in prevention is likely to grow:

"The trend is to do as much drug testing as 'you can get away with.' This has had effects—in both the employment market place, and internally. In the market place, pre-employment drug testing becomes a self-screening device. The word gets around that a specific employer tests and the message is clear: Don't apply if you have the potential to fail the drug test. To date, we see fewer applicants being rejected as a result of testing. It has become an effective pre-screening program.

"Internally, employee drug testing has become more of an employee relations problem—introducing a new work rule that 'wasn't there when I was hired on.' Therefore, drug testing becomes a health, morale, and legal issue. And, it becomes an internal management issue. At Security Pacific, we have learned that you can't just set this policy and ignore it—it needs constant monitoring and training. That means ongoing training for managers in their responsibilities, identifying 'reasonable suspicion,' and carrying out subsequent appropriate actions. It is costing more time and money than we estimated. We have discharged a few employees and a few employees have turned themselves in to our EAP program for counseling. To date, no grievances have been filed in this area.

"Enforcement, prevention, and treatment, coupled with a loss of productivity, has now made drugs an important Board-level issue among executive management. If these concerns continue to grow, corporate America's role in the drug scene may really change to more definite action."

Health Care

The panel discussed three aspects of health care. First, it addressed the measures that employers are taking to deal with rising costs for health benefits. Then, it considered the burden of the uninsured and other cost pressures on the system presently in place. Finally, it moved toward a conclusion about future developments, though few members expect a national resolution in the near future.

All panel members agreed that employers will continue to shift some of the cost of health coverage to employees. Mitchell Fromstein made it clear that benefits and wages are trade-off items:

"It is logical to assume that the costs of corporate supported health care will continue to rise at rates higher than firms consider reasonable or supportable. At the same time, demand for and use of those services will increase as new devices, products and procedures are developed.

"I believe the justification for cost-shifting will be well understood by the worker. Health care has become one of the two major 'benefits' on which the society has focused (pension is the other). In the beginning, these elements were seen as 'fringes' to attract and keep employees. They are now seen as 'entitlements' and are,

therefore, viewed as a part of the compensation structure. I believe that the cost-shifting will eventually (if not currently) become a visible and open part of the negotiated salary base and the shift will simply be in the form of a trade-off against a portion of expected salary rises.

"The implied trade-off will sound something like: 'We will pay you more and you buy your own health care,' or 'We'll raise you less and we will supply your health care.'

"The effect will be to shift the entire cost—or none of it—depending on how you look at it. It is a painless solution in terms of perceived gains or losses. A 3 percent wage hike rather than a 5 percent wage hike would provide the needed money. The problem with this approach is that it bears more heavily on the lower-salaried worker and, thus, slight adjustments are needed to introduce a fairness element. The penalty will be paid by the workforce in terms of disposable income and, hence, standard of living, but I believe the society will accept that in return for the benefit. My only question is whether this will be done openly or silently."

Daniel Mitchell agrees that, as he puts it, "it is best to think of employee compensation as fixed with a subsequent decision as to how to allocate the compensation dollar between wages and benefits." He goes on to say:

"Employer-paid health benefits are an artifact of the tax code, which makes it advantageous for it to appear as if the employer is providing coverage as a kind of gravy on top of the meat of cash wages. The tax code makes it advisable to make it look as if the employer sets a wage below total compensation and then gives a gift of health insurance to the employee. In fact, the compensation pie is simply being divided. And, since the tax code gives a net subsidy to health insurance, the slice allocated for health insurance is bigger than it otherwise would be.

"If health care plans are designed so that they inefficiently provide benefits by encouraging overuse, they end up providing less effective service per dollar of expenditure. As this happens, employers can choose mechanically to increase the health slice (which means diminishing the wage slice). But if they do, they will end up diminishing the utility of their total compensation package. Such a situation is unsustainable as a competitive matter if other employers are instead redesigning their plans to provide more effective service per dollar.

"For most employers, it is hard to believe that health cost inflation could be much of a surprise after two decades. Thus, employers will continue to take steps to share costs or otherwise ration the use of health care for as long as the price of health care continues to rise relative to the price of everything else. There is nothing on the horizon for 1990-1991 that should make us believe the health inflation won't continue at a pace faster than the rest of the CPI. So the shifting will continue."

Irving Margol does not expect any new techniques for cost-shifting will be developed, but that more will be wrung from those already tried:

"I don't see any new devices on the horizon. Employers are 'toughing up' on the existing cost-shifting devices. Employers are adamant on shifting costs, since they cannot control them. With escalating health care costs and the possible FASB impact, we are continuing to shift costs:

a) Effective January 1, 1991, all retiring employees will no longer receive free medical for them and their spouses. They must share the costs.

b) Effective January 1, 1991, current retired employees are being offered the option of retaining a no-cost plan or moving into a flexible plan, purchasing certain services with existing company funds, but paying for new services depending on their lifestyle.

c) We have introduced higher deductibles and larger out-of-pocket costs to the employees.

d) Managed Care, PPO's, Medical Watch, et al., are current programs geared to control costs.

"We have moved away from a time when benefit programs were considered to be 'corporate responsibility'. We have moved from an era of 'We will provide' to the emerging era of 'We will make available.' (At controllable costs, even if the employee must pay more.) We will make flexible programs available and the employee will choose depending on needs and ability to pay."

Rex Adams described some new preventive emphases within the corporate medical system:

"The trend to cost shifting has not yet run its course. An astonishing number of major employers still operate 100 percent employer-paid medical plans, either through a misguided allegiance to paternalistic traditions or because they have tied their hands through collective bargaining.

"The move to cost shifting has been driven not simply by a desire to dump a growing financial burden on the backs of employees but also by a sober realization that countervailing consumer power against the provider community is a necessry ingredient in a market-based solution to the disastrous upward spiral of health care costs in this country. Until employees covered by comprehensive medical plans have a strong economic incentive to seek the best value in health care, no progress can be made.

"But cost shifting to employees can be only one element of a sensible strategy, and a device with definite limits. Most major employers will want to combine the usual cost-shifting techniques of premium increases, deductibles, and co-payments with more hopeful measures of intervention. We are converting more of our occupational health and clinical resources to health promotion and preventive medicine programs.

"The costs in psychiatric and substance abuse care, particularly among dependents, are growing at an alarming rate. We are addressing them as separate issues, with a greater degree of cost shifting than heretofore, coupled with a provision for early help and referral services through a soon to be rolled-out Employee Assistance Program.

"All of these measures will help palliate, and perhaps curtail to a degree, the built-in structural trend toward ever increasing medical costs. They won't significantly alter the force of the underlying drive (e.g. technology, demographics, tort disease, greed, etc.). Accordingly, look for increasing politicization of the issue, with the vote seekers becoming interested in developing mandates. Unless of course, the boys at Ways and Means decide to pursue the bright idea of equalizing medical benefits by taxing as imputed income the value of all employer-provided subsidies over and above some flat dollar premium per month for family coverage."

Gene Remoff analyzes cost shifting this way:

"Cost shifting to employees will go further, particularly when you include relatively new designs that have a strong cost-shifting element to them. Most notable among these right now are flex plans. Companies with these plans report slowing and lowering of medical costs due to employees opting down or out of certain generous and costly coverages. Furthermore, the firm can more conveniently add cost increases to the health care component of the flex plan without the near-riotous results that might otherwise occur.

"However, relatively little of the cost-shifting activity is flowing from employers to 'the other guy.' I saw somewhere that 30 percent of the increase in employer medical plan costs is due to unreimbursed cost shifting from the public side which providers sneak into higher charges passed on to employers.

"Cost shifting is a fleeting answer, however, unless you can trigger structural changes in delivery and pricing. It is widely acknowledged that the provider community is adaptive in covering their existing revenue needs by 'gaming,' such as increasing their rates for outpatient charges after companies started discouraging in-hospital treatment. Similarly, given the evolving mix of employees covered by HMOs and the upward trend in their charges, HMOs don't save you costs anymore (if they ever did) except to the extent they can muscle their contract providers into discounted rates as PPOs do.

"Shifting more of the cost to employees continues to be seen as an important way of inculcating fiscal responsibility in their use of such services. Some firms could do more here and will when they reach the point where the present lonely pain for management is too great.

"In any geography, where an employer or employer group has a large population, we are going to see that population being used as leverage with local providers of health care to get reduced rates. In fact, insurance carriers are not using that same leverage (of a sizeable insured population in a particular geography) to do the same thing. The carrier may even set up a combination network of their own HMO and a network of area acute care hospitals and doctor groups with special rates. The covered employee can then choose to go 'out of network' and pay the difference. This is the kind of managed care that unions are starting to agree to put in place.

"We must keep in mind that the provider who agrees to charge such lower rates will then pursue one of three courses of action:

a) try to lower his costs and maintain his old margins of income at lower prices

b) charge other users higher prices

c) reduce his income

This sounds like, and is, basic economic behavior. Unfortunately, providers have most often found that 'b' above is the least painful to implement. In such circumstances, without improvement in the efficiency and effectiveness of health care delivery, managed care becomes just another way of cost shifting for our society as a whole.

"Since we are clearly concerned with the matter of rising prices, we should be looking at what the providers, the doctors and hospitals, are doing, why they're doing it, where their costs are and where their delivery of the health care service doesn't efficiently address some acceptable standards for quality and access. *Only then* can we introduce designs for allocating and paying for resources that offer providers discouragements and encouragements that are in the interest of all of us."

Rex Adams is using his company's "negotiating leverage and mass purchasing power, in the context of an increasingly competitive and fragmented care delivery system. We at Mobil are moving aggressively into a managed care environment."

Alan Ewalt adds:

"The step for union negotiator to accept managed care is not an earth shattering step. For years unions have found HMOs an acceptable health care alternative and the HMO is managed care in purer form. The HMOs manage access to the system to insure that only essential services are provided. The managed care plans attempt to do the same thing without, however, the same capitated fee structure. Increasing union acceptance of managed care is a further indication that the unions understand the health care cost plight of the employer.

"The jury is still out on how well managed care can perform the cost control mission over time. Some astute observers view the extra layer of administration involved in managed care plan as an inefficiency in its own right, i.e., those adminsitrators who are managing the managed

care system create a level of inefficiency which will eventually make the managed care plans ineffectual as well."

The discussion moved to consideration of the uninsured, as Alan Ewalt said:

"With 37 million uninsured Americans today, and the number on the rise, it puts a mounting demand on the Medicaid system to provide benefits. Uninsured indivduals who are not eligible for Medicaid because they are not indigent are in a position where their primary access to health care would be funded directly from their own pocket if they can afford it, from charity, or from the county hospital. What this says is, although uninsured individuals may not be covered by a policy, they are not uncared for and are not restricted from access to the health care system. What is alarming is that these people get less health care attention than the typical American. Further, having an increasing number of Americans exposing their assets to significant financial risk because of no health insurance is a dramatic contrast to the sytems in Canada and Western Europe which provide health insurance to all.

"The magnitude of this uncovered population is one more stimulant to reformation of national health policy and a sure stimulant to pressing for legislation to get employers to cover more people. The federal government cannot afford the solution so it will be thrust more and more onto employers."

Madelyn Jennings added:

"The curious thing is that two-thirds of the 30-40 million uninsured people are not poor but are still uninsured. Regardless of all our country's needs, it seems to me a nation as rich as the United States cannot long continue the current situation with 30-40 million people uninsured. Utlimately, it will be decided that medical care coverage is as important as salary. In the interim, insurance companies will become more creative about providing adequate individual coverage. The final impact of the increased number of uninsured is greater costs to government and industry. A coalition of government and industry to provide a national health care system seems like the logical future. Probably, the Canadian system may be used as a model and we'll become use to slower service. There's no question that business leaders are beginning to think along these lines even though they have not done so in the past."

Mention of the Canadian system is frequent in business circles today, and Austin Thorne offered the following thoughts on the comparison of the two systems:

"There is a multiplicity of different employer situations in Canada. The export of raw resources is more a main spring of the Canadian economy in contrast to value-added goods for export. This creates a different set of dynamics—even when taking into account the international competitiveness question (i.e., raw resources cannot be sources as easily from off-shore as finished goods or partially-finished goods and components.) While one can rightly argue that there is some pressure from other resource-exporting countries, the dynamic is not the same.

"Shifting health care costs has been a major collective bargaining matter for the last decade in Canada, where the majority of big employers are unionized. As a result, there is not a lot of 'fat' to trim in this area. The national Canadian medicare program tends to mitigate pressure here. The American situation is different.

"Many smaller firms, over the last decade, have had to be more competitive by offering health care benefits in the market place to prospective employees. Once again, due to the different dynamics in Canada, this issue does not fall out the same way as it does in the United States. This does not indicate, however, that there is not a significant portion of small firms that do not provide any health care benefits. The shift to a more service-oriented economy is definitely exacerbating this situation, coupled with the fact that many of the larger firms have moved to outsourcing for portions of their production. In Canada this is increasing the pressure to unionize in smaller firms as the status quo in the country is one of fairly good health coverage in the work place; coupled with the fact that the legal legislative framework in Canada, relative to organizing, is much kinder to unions. This would lead me to believe that employees increasingly will address this problem through unionization in the next decade. There is evidence that this is taking place now.

"I am not quite sure what you mean by the jargon 'managed care.' If it means what I think you mean (i.e., more efficient use of existing medical care plans by employer/employee) then I agree that that is an emerging trend here in Canada. That trend seems to be leaning toward a cafeteria-style of health care benefits where an employee picks and chooses from a menu of pre-selected benefits, based on their personal priorities. This has a major effect in terms of cost containment of health care plans that are not covered by medicare. As far as where this new development will lead, my opinion is that it is a step in the right direction. Once again Canadian firms, I believe, are on the leading edge of this trend. I do not foresee a great deal of resistance in collective bargaining if: a) it's purely a cost containment measure, and b) the interests of the employees are better served by participating in such a measure.

"I have been watching, with interest, the debate in America concerning whether or not the country should embark on a mandated government-sponsored medicare sytem similar to that in Canada. I have yet to hear one Canadian employer or employer's group argue against medicare as an obstacle in the work place. However, I

have heard arguments in the area of national costs relative to the country's tax base and deficit. In terms of competitiveness and impact in the work place, it is my considered opinion that employers, by and large, are quite satisfied with the Canadian medicare system. It acts as an extremely important adjunct to any company-specific health care plans and cuts down tremendously on costs. It also ensures that all employers, through the payment of their taxes, help to carry that burden. Medicare does wonderful things for an employer's ability to compete.

"On the social side of this question, Canadians take a great deal of national pride in the level of health care services. It is widely understood by the average Canadian that we have one of the best health care services in the world.

"My prediction is that America is being irrevocably drawn to a national health care system. It is not a question of if, it's a question of when. It makes sense from all angles."

Discussion of the direction of policy in the United States was lively. Daniel Mitchell said:

"Congress does not want to run a program of universal coverage through the federal budget, given the current deficit. Having just gotten burned on the catastrophic plan for seniors, Congress won't want to touch even a self-financing plan for some time. Thus, the preferred solution will be mandated benefits from employers and/or incentives and regulations to extend employer coverage. However, this push comes at a time when the employment relationship is becoming more tenuous and there is much to be said for a centrally operated system of health coverage which does not depend on employment and which is not affected by employee mobility (voluntary or involuntary).

"There are many schemes that could be set up that would avoid formally running the plan through the government budget. Some such plan will emerge this decade. The worst approach would be simply to mandate employer-provided coverage with no thought to the mobility/portability issue. Essentially, the employers who will be most affected will be small firms with high employee turnover; firms which themselves may have short life expectancies. A simple mandate that little firms act like big ones with regard to providing health coverage will just replicate the mobility/portability problems we already have among the big ones.

"What is needed is a system funded by something that is as close to a payroll tax as possible (even if it is officially called a 'premium'), is as centrally administered as possible, and provides for mobility and portability. Of course, firms could offer supplemental wrap-around policies adding to the basic coverage.

"It is time that the notion that the employer is the natural provider of social insurance be reconsidered. This notion is a relatively recent development; it is only 30-40 years old. Is it really natural that expertise in the HRM field should mean expertise in dealing with insurance carriers, hospitals, etc. as opposed to recruitment, training, incentives, employee evaluation?"

The employer cost burden was raised again, along with the subtly transferred costs of the uninsured, in considering whether this would cause a political shift among major corporations. Rex Adams disagreed on that point:

"You are correct in noting, as we have, that some corporate leaders have begun to sound a note of receptivity to, if not actual encouragement for, a 'national' solution to the health care cost crisis. I think you will find that point of view most prevalent in labor intensive, old line manufacturing industries with out-of-control medical costs and a huge retiree population entitled to generous medical benefits. There is a large FASB rock beginning to roll down the hill toward them and it could wreck their balance sheet. One can sympathize with their concern without wishing to step forward and shoulder a share of their burden.

"As a practical matter, in the long term, there will inevitably be a more coherent national public policy response to what's going on. But we're a long way from the point where a national health system along the lines of the British or Canadian models would become either desirable or politically feasible. Instead, I expect we will patch as we go, with a blend of public and private initiatives, until we can find a better balance in the system."

Gene Remoff added that patchwork solutions were, in fact, the problem:

"We'll end up with a mess of uneven state mandated regulations, localized employer coalitions, a large constant or growing population of uncovered and undercovered citizens and an array of providers, insurers and payers in constant tension, i.e., our present intolerable circumstance will continue to get worse.

"My vote? The Canadian system is a reality and therefore worth using as a design to strive toward. Certainly our political circumstances are different. Certainly, they spend less of their GNP on Health Care (if we spent their 9 percent at our size, the U.S. health care bill would drop over $100 billion a year!). But their plan works. So does the plan in England, which is limited in its access only because they spend less than half of the GNP that we do. If England spent the dollars we do now they'd do a better job than we are presently doing.

"We've got to address how care is being delivered, who's getting it and why, how it's being priced and whether or not is it effective. Here are some further points gleaned from the literature and my discussions with consultants and academics who have been looking inside this maelstrom. Twenty-eight percent of the increase employers are experiencing in medical care

prices can be identified with increased technology, increased use of that technology by providers and increased utilization of medical services (including technology) by patients. And let's remember, patients basically utilize the services they are directed to use by the providers. This 28 percent figure ranks right up here with cost shifting (30 percent) and (unit) medical price inflation (33 percent).

"Why the heavy utilization of facilities, procedures and technology? For one thing, we've got a steadily aging population that is requiring coverage (in some cases mandated by government regulations). Even though Medicare 'picks up' a piece of the cost, we've already agreed there's no free lunch on who pays for medical expenditures. We go well beyond other countries in providing life-support medical services to our older citizens.

"What is the answer? I don't know, but if employer plans eventually foot the bill, putting a cap on retiree reimbursements will be problematic for them. We saw what happened when Congress and the AARP attempted to provide catastrophic health care for the elderly using, for the first time, means testing.

"Whenever usage by any general population of covered employees is examined, the old 80/20 rule surfaces. Twenty percent of the group is typically found to be generating 80 percent of the claims.

"Paths we will attempt to take are already being cleared and trod upon, however lightly. Wellness programs have some validity (even though substantial hard data may have to await the outcome of longitudinal studies). Certainly, there have been major advances realized in instituting pre-natal education and guidance. We're going to see more premium cost sharing, and where employers can't or won't take a hard stand (like taking a strike) to get it, they'll settle (perhaps wisely) for Managed Care programs.

"We're also likely to see an imposition of more caps on expenditures that are beyond the realm of care employers have intended to provide. Covering catastrophes is an expected response from an insurance program. Covering repeated, open-ended substance abuse or psychiatric claims may not be. Limiting coverage for retirees is already emerging as an issue.

"But more than any of the above, in 1990, we will start to see an intensifying of demand for efficiency and effectiveness in medical care being focused on providers by those who make the payment—the employers, employees and government agencies. How providers react to this pressure may generate attention to some legitimate concerns they have about defensive medicine and care for the indigent. That's okay if it helps Congress draft balanced medical care legislation."

In the event, only one panel member came up with a detailed prediction about a future national move on health care. Irving Margol:

'Management is learning that no matter what steps are taken to control costs, the costs rise, the company's contribution increases, employees' costs rise as the burden is shifted, and it ends up in a no win/no win. Having slashed and shifted costs as far as possible, we have reached a point where present approaches are not having the bottom line effect expected. Therefore, corporations are ripe for a radically different approach—one in which the burden is away from business to a greater degree.

"I don't feel that the uninsured are a necessary significant mass that will eventually result in a national program. Such legislation will come from a combination of things: people who need coverage the inability to control health costs; the joining of forces of labor, managment, and Congress to address this issue in concert. As long as providers are not adapting to market forces and addressing the cost picture on their own, I can't see any other conclusion.

"Who will fund the program—employees through mandated contributions, citizens through direct taxation, or companies directly? The mood of Congress will not support additional debt nor tax increases. So, that will leave organizations, supported heavily by mandated employee contributions, to fund the program.

"What will it look like? The funding will most probably support all—including those currently unemployed, self-employed, and/or uninsured—to a minimum level of care. But, we'll also see a 'class system' of coverage including both supplements by companies as prerequisites, and 'purchasable' supplemental coverage outside the sytem. This approach lends support to a national program than would work like an insurance 'pool.' With the broad base of the pool, the risks are distributed and cost savings realized.

"The dilemma of the source of the costs still remains. A pool does not stop doctors and care givers from charging more. Either (or a combination) of two alternatives is possible:

a) salaried physicians and care givers

b) mandated schedules of payments for care

"The first alternative is unlikely—it cuts too close to having doctors become civil servants. But the second alternative is imminent. The national program should include caps and maximum payment schedules—in essence, a 'womb-to-tomb' medicare."

Closing Words

Changes that have been developing during the 1980s are going to bring new vigor to business management in the coming decade. The panel has a sense that corporations have thrown off slow-moving "administrative" styles, just in time to raise business effectiveness in the 1990s. There is also a sense of urgency about this, be-

cause the United States cannot remain competitive without raising the productivity of its workers. Only better management can do that.

The next-to-last word belongs to Gene Remoff:

"All of the questions you've posed here need to be answered by most organizations. What I'd like to focus on in my comments is the challenge that the increase diversity of the workforce represents to the senior human resources executive.

"As your function became more integrated with the operational management of the business, the conflicting goals of employees as a group and the near-term priority objectives of the business entity to grow and make profits made you painfully aware of the trade-offs and reconciliations you'd have to realize in doing your job.

"You're increasingly being brought into the identification and development of strategic programs and initatives for the now-obvious reason that the effective utilization of human resources are seen as a matter of either survival or a competitive edge (or both). But your concern with the workforce in regard to their availability, well-being and effectiveness has been made highly complex by the different faces that workforce now presents. Their basic skills are uneven. Their family responsibilities are more varied and often more urgently problematic (child care, latch-key kids, elder care, substance abuse). You're facing labor shortages now or in your projected business plan period—and yet you don't have in place the accommodations and arrangements that would allow access to employment to many trained and trainable workers who stay at home (women and retirees) or can't get to your work place (the inner-city poor).

"You must now educate two sophisticated target audiences—those who write public policy and the top two or three layers of your own management. You, more than anyone in your organization, should be able to see how important it is for our well-being, socially and economically, to address the imbalance of access to quality human services that we've allowed to develop in this country.

"Our education, transporation, and health services are in disrepair. You know it because of your necessary attention to the workforce. You've got the anecdotes that politicians need to hear (and repeat when championing legislation). You've got the evidence of what difficulties such inattention is causing for your employees, the potential workforce, and your company's competitive position.

"I've also targeted your 'top two or three layers' of management. It's not enough for your CEO to be sensitive to these issues. (Many CEO's already are, because they look at their firm within a broad context of opportunites and dangers.) The middle managers who must implement the CEO's strategic programs need to understand that the workforce has changed, that their front line managers already know this and that it's going to take some investment in training, accommodation, and flexible work arrangements. Certainly, it will also require different ways of managing."

Finally, Irving Margol suggested that there are some unanswered questions for business in the 1990s, and that in the coming years these questions will be addressed by this panel:

"What is loyalty in today's environment? What does the employer have a right to expect? What does the employee have a right to expect?

"What is an effective organizational structure in today's ever changing corporate realignment?

"What is the role of the corporation in helping solve many of the issues addressed by the non-profit sector (especially in light of government cutbacks and tax changes)?

"What experiences will it take to develop the leaders of the future?"

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The Conference Board

Rethinking Employment Security

- *corporate paternalism wanes*
- *U.S. companies reaffirm employment-at-will stance; many report an increase in wrongful discharge suits*
- *mutual employer-employee loyalty survives, but firms rate career development and other incentives higher than job security*
- *firms anticipate more demand for work-family policies, flexible hours and benefits*
- *moderate workforce shortages are foreseen, but many slots may be filled by contingent workers*

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Rethinking Employment Security

by Kathryn Troy

Highlights

In the 1980s, large-scale workforce cutbacks together with a growing assertion of employee rights heightened contention in the workplace. Observers suggest that the mutual bonds of employer-employee loyalty became unraveled.

This report examines how major U.S. firms are realigning their employment practices and shaping an employment policy that will help their firms compete effectively in the 1990s.

Career Development

Commitment to employees' career development may be the new bond linking employers and employees in the future. Most firms report making such a commitment or indicate that their company will move in that direction in the next few years. They underline the notion that employees must play an equal role in this process and must recognize that the company's commitment is voluntary.

Employment "At Will"

Firms have responded to legal challenges by adopting statements notifying employees that employment is "at will." Overall, 85 percent of the firms now have such a statement, while only a handful have a "no layoff" or employment assurance policy.

Employee Lawsuits

Few firms (about 20 percent) have escaped being sued by employees for wrongful discharge during the past five years, and a third of the respondents say such suits are increasing.

Employment Relationships

At least half of the firms have a relationship to employees that is solely a "business/financial" one, while an equal proportion report that their company still tries to maintain a "family" atmosphere in the workplace. Some executives noted that both attitudes exist in their firm, but report that the trend is away from a "family" environment.

Grievance System

Most firms have a grievance system for handling complaints from non-union employees. An "open door" policy and a step-by-step review system are the most frequently used methods.

Incentives

Challenging work, opportunities for advancement and performance-based compensation top the list of incentives respondents currently use to recruit employees, but most agree that new incentives, such as flexible hours and benefits, family supportive policies and employee awards and recognition, will grow in importance in the 1990s.

Managing the Workforce

Current efforts to manage the size of the workforce include increased investment in automation and technology, the use of purchased services and transfer policies that encourage movement of employees between company locations. High on the list of techniques that might be used in the future are flexible work practices, internal pools of employees, phased retirement incentives and targeted turnover of employees.

Workforce Shortages

The majority of firms expect to feel the impact of workforce shortages during the 1990s, but only about 20 percent have made a formal effort to map their short- and long-term workforce needs. In the next few years, 40 percent of the firms expect to undertake this task.

About This Report

This study is based on survey responses from 216 major U.S. firms. In mid-1989, questionnaires were mailed to 1,025 corporations, including the 500 largest manufacturers and 500 largest service companies included in *Fortune* magazine's 1988 listing. The questionnaires were addressed to the senior human resources executive in each firm and this executive was asked to respond or to designate an appropriate person to do so. The tables below profile participants by industry, financial and employee size.

Almost 90 percent of respondents characterized their firm as one that has multiple products, services and divisions and nearly a third of the executives report that their company has 20 or more locations of at least 100 employees. Only 10 percent of firms, mostly banks, have a single location of that size. The median for the survey group is eight locations.

Among the 182 firms having multiple products, services or divisions, three quarters *set human resources policies* on a centralized basis. In only eight percent is this activity decentralized—the remaining firms report a mixed responsibility. Almost half of the group also does human resources *planning* on a centralized basis, about a third say responsibility is mixed, and the rest decentralize planning activities. Human resources *administration* and *training and development* are less likely to be centralized—only 30 percent concentrate either of these activities at the corporate level. Nearly half of the firms decentralize administration and 35 do so for training and development, while responsibility is mixed in the remaining companies.

Responding Firms: Industry Profile

	Number of Companies	Percent of Total Group
Manufacturing:		
Durable Goods	52	24%
Nondurable Goods	46	21
Service:		
Financial Services	69	32
Other Services	48	22
Total (all companies)	216	100%

Responding Firms: Employee Size

Number of U.S.* Employees (1988)	Number of Companies	Percent of Total Group
Below 1,500	25	12%
1,500 to 2,999	36	17
3,000 to 4,999	30	15
5,000 to 9,999	40	20
10,000 to 19,999	38	18
20,000 and over	38	18
Total (all companies)	205	100%

* 106 firms reported that a portion of their employees are covered by collective bargaining agreements. The portion covered ranged from 1 to 88 percent, but the median was 26 percent.

Responding Firms: Financial Size

Industry	No. of Companies	Indicator	Range	Median
Financial Services	66	Assets	$12.9 million to $200 billion	$6.0 billion
Transportation and Utilities	21	Operating Revenue	$2.1 million to $9.9 billion	$2.1 billion
All Other	112	Sales	$1.5 million to $27.7 billion	$1.2 billion

Employment: At-Will or By Right?

"It is the policy of this company that all employees who do not have a separate, individual employment contract with the company for a specific, fixed term of employment are employed at the will of the company for an indefinite period. Employees may resign from the company at any time, for any reason, and may be terminated by the company at any time, for any reason, and with or without notice."

Throughout the 1980s, this reality was underlined for at least 10 million employees who lost jobs as companies searched for ways to restructure or streamline operations, eliminating positions in the process.[1] Unprecedented levels of corporate merger and acquisition activity also meant that duplicate jobs were excised from the payrolls of reconstituted firms. Top management in this new breed of company set its sights on increasing productivity and competing more effectively at home while meeting the challenge of tougher global competition.

Under common law, U.S. employers traditionally have had considerable leeway in discharging employees. The rule that has prevailed in the United States since the 19th century is that companies may hire and fire "at will." In contrast, most other Western industrialized countries subscribe to a "good cause" standard in terminating employment. In fact, Theodore St. Antoine, a University of Michigan law professor and authority on wrongful discharge, recently noted that the U.S. is the last major industrial democracy not to have a just cause protection for individual employees.[2] There are some constraints on employment decisions even in the U.S., such as state and federal laws that bar discrimination against protected groups (e.g., minorities, women, the handicapped) when hiring or dismissing employees.

Collective bargaining agreements also protect many unionized workers from at-will dismissal through "due process" clauses. Predictably, as companies pruned jobs from their payrolls during the 1980s, U.S. labor unions shifted the focus of their negotiations from securing wage increases for members to insuring greater job or employment security.

But unions represent a minority of the U.S. workers. An estimated 85 percent of the labor force in private industry works without benefit of a collective bargaining agreement.[3] Lulled by a growth economy in the decades from the 1950s to the 1970s, these non-union workers had come to expect continued employment, so long as their job performance was satisfactory. As their own jobs or those of coworkers were cut from payrolls during the 1980s, unprotected workers—especially those employed with a firm for several years—began to ask questions about their "rights."

A Shift in Public Policy

By the early 1980s the social climate in the U.S. seemed ripe for an assertion of employment rights. To some observers, such rights seem a natural expansion of the "due process" concept that has been integral to union collective bargaining agreements since early in this century. Federal anti-discrimination legislation had been in force for 20 years by the 1980s, and also may have contributed to employees' perceptions that they had certain rights to continued employment.

Experts in human resource practices note that anti-discrimination laws inspired companies to create guidelines for employment and termination as well as statements of policy and practice, some incorporated into employee handbooks; firms used these to demonstrate that they were treating employees fairly. Once these statements were formalized, however, the courts then had a basis for interpreting the employment relationship as a contract. Moreover, as companies selected jobs to eliminate, some firms became vulnerable to discrimination suits by employees who claimed to be members of protected classes. For example, many older workers were incensed with their employers for terminating them at a age when it would be difficult to find a new job at a comparable salary.

Judicial and Legislative Intervention

While corporations were affirming their right to terminate "at will," courts in as many as 46 states were making decisions that seemed to erode the "at will" concept. These decisions usually involved cases where the court established that an im-

[1] In its *Report on Worker Displacement* during the 1980s, the Bureau of Labor Statistics of the U.S. Department of Labor, Washington, D.C., estimates that about one million jobs per year are eliminated because of business closures or permanent layoffs.

[2] See *Daily Labor Report*, No. 201, October 19, 1989. Bureau of National Affairs, Washington, D.C.

[3] For recent statistics on union affiliation, see *Employment and Earnings*, January, 1990, p. 232. U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.

plied contract or covenant of good faith existed between employer and employee (e.g., based on the employment interview, wording in the company handbook), or an important public policy had been violated (e.g., an employee was fired for whistle blowing, union activity or jury service). In some instances, employees won large claims for punitive damages. For example, a study by the Rand Corporation of 120 wrongful discharge suits settled in California between 1980 and 1986 found that the average award in 40 punitive damage claims was about $520,000.[4] Nevertheless, employers continue to defend themselves successfully against many suits, especially when they can prove that an employee was fired for incompetence or when they can demonstrate legitimate economic reasons for terminating employees.

The wrongful discharge issue has drawn the attention of state legislators. The state of Montana passed a wrongful discharge law in 1987 that provides non-union workers with basic protection; they cannot be fired without "good cause," as determined by the court. However, the law limits awards to those who sue for wrongful discharge and bars punitive damage awards in all but a few instances. This legislation was challenged, but was upheld by the Montana Supreme Court in July, 1989. Twelve other states are considering similar legislation.

Although Congress has not passed wrongful discharge legislation, it did enact the Worker Adjustment and Retraining Notification Act (WARN), which went into effect in February, 1989. This law requires that companies employing at least 100 full-time workers at one location give employees 60 days notice of a closing or layoff, if it affects one-third of the workforce (or 500 employees, whichever is lower).

Limiting Wrongful Discharge Suits

There are no firm data on the increase in wrongful discharge suits during the 1980s, but a recent estimate by the Bureau of National Affairs (BNA) suggests that these suits doubled between 1982 and 1987.[5] According to BNA, there are as many as 25,000 suits currently pending in state and federal courts. Reacting to a surge of litigation, many firms took self-protective measures during the 1980s. Recruitment literature and procedures, employment interviews and applications, employee handbooks, personnel policies and supervisory manuals, evaluation and grievance procedures were closely scrutinized for language that might make or imply a promise of continued employment. Employment-at-will statements became part of application forms and employee handbooks in many companies (see Exhibit 1 on page 25).

By the close of the 1980s, the trend in legislative and judicial activity on wrongful discharge appeared to be turning more restrictive than earlier in the decade. The upholding of Montana's wrongful discharge law in mid-1989 makes more likely the passage of other pending state laws limiting punitive damage suits. And, in what many legal experts consider a landmark case, late in 1988 the California Supreme Court placed restrictions on awards in wrongful discharge suits in that state. In *Foley vs. Interactive Data Corporation*, the Court said that punitive damages and other tort remedies could not be recovered from an employer in cases where the plaintiff sued for breach of an implied covenant of good faith and fair dealing. The court allowed the plaintiff to sue for breach of an implied contract, but under contract law an award is usually limited to reinstatement and recovery of lost wages.

Looking to California as a bellwether state, many employers applauded the decision, hoping this precedent would stem the flood of punitive damage awards in suits in other states. Legal experts note, however, that by affirming that employers can be held to implied contracts or promises made to employees, the decision also aids workers.

Precedent setting decisions were made at the Federal level as well. While the decisions do not apply specifically to wrongful discharge, experts say that the Supreme Court's June, 1989 rulings narrowed the scope of two civil rights acts. The Court ruled on Section 1981 of the Civil Rights Act of 1866 Title VII of the Civil Rights Act of 1964:

- The Court held that Section 1981 of the 1866 Act bars discrimination in hiring (the formation of a contract) but does not apply to problems that may arise later on the job. In the past the law had been used to recover damages for racially discriminatory job conditions. The new rulings bar such use of the 1866 law in damage suits against private employers or state and local governments (*Patterson vs. McLean Credit Union; Jett vs. Dallas Independent School District*).
- In one of two significant rulings affecting Title VII of the Civil Rights Act, the Court ruled that challenges to seniority systems charging discrimination must be brought within 300 days of the adoption of such systems (*Lorance vs. AT&T*).
- In another Title VII decision, the Court shifted the burden of proof in discrimination cases involving "disparate impact" from employers to employees. In such cases, the plaintiff must prove that an employer has no objective, business-related justification for a job requirement that, on the basis of statistical evidence, discriminates against women and minorities (*Wards Cove Packing vs. Atonio*).

Early in 1990, a group of 123 Congressmen and 34 Senators introduced legislation entitled the Civil Rights Act of 1990, which challenges several of these recent Supreme Court decisions.

Workplace of the 1990s: An Employees' Market?

Some of the major concerns of U.S. corporations as they enter the 1990s are increased workforce productivity, improved quality in products and services, and global competitiveness. Many employers will also find themselves competing to recruit

[4] Quoted in Milo Geyelin, "Fired Managers Winning More Lawsuits," *Wall Street Journal*, September 7, 1989.

[5] See Geyelin, Note 4 and "Without Just Cause: An Employer's Practical and Legal Guide on Wrongful Discharge," Bureau of National Affairs, Washington, D.C., 1989, Report BSP 103.

New Jobs But Sufficient Workers?

More than 18 million new jobs will be added to the economy between 1988 and the year 2000, according to the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor. Most of these (16.7 million) will be in the service sector. The growth of the labor force is expected to slow to 1.2 percent annually, compared to an average 2.3 percent in the 1976-1988 period. Reasons for this slowdown include the full absorption of the baby boom generation of the late 1940s and early 1950s into the labor market; the presence of smaller numbers of new, young workers in the population base; and a slower rate of increase in the number of women entering the workforce, since the rate of participation of women in the workforce grew to very high levels in the last decade.

Among the problems raised by those analyzing labor force data for the 1990s are possible shortages of entry-level workers and a mismatch between the educational attainment of workers and qualifications needed for employment. The most rapid occupational growth is projected for jobs that require some post-secondary training. The accompanying tables provide a capsule view of industry employment and occupational growth projections.

Employment growth in selected industries, 1988-2000*

(Levels in thousands)

Industry[1]	1988 level	Annual rate of growth, 1988-2000
Fastest Growing:		
Computer and data processing services	678	4.9
Outpatient facilities and health services, n.e.c.	675	4.7
Personnel supply services	1,369	4.1
Water and sanitation including combined services	152	3.9
Residential care	391	3.8
Offices of health practitioners	1,850	3.5
Arrangement of passenger transportation	175	3.4
Research, management, and consulting services	811	3.2
Individual and miscellaneous social services	571	3.2
Personal services, n.e.c.	294	3.2
Nursing and personal care facilities	1,319	3.1
Credit reporting and business services, n.e.c.	776	3.1
Miscellaneous publishing	79	3.1
Security and commodity brokers and exchanges	449	3.0
Advertising	237	2.8
Legal services	852	2.8
Automotive rentals, without drivers	164	2.7
Accounting, auditing, and services, n.e.c.	530	2.7
Miscellaneous transportation services	141	2.7
Detective and protective services	464	2.6

[1]Ranking is based on industries with employment levels of more than 50,000 in 1988.
n.e.c. = not elsewhere classified.

Fastest growing occupations, 1988-2000, moderate alternative projection**

(Numbers in thousands)

Occupation	Employment 1988	Employment 2000	Numerical change	Percent change
Paralegals	83	145	62	75.3
Medical assistants	149	253	104	70.0
Home health aides	236	397	160	67.9
Radiologic technologists and technicians	132	218	87	66.0
Data processing equipment repairers	71	115	44	61.2
Medical records technicians	47	75	28	59.9
Medical secretaries	207	327	120	58.0
Physical therapists	68	107	39	57.0
Surgical technologists	35	55	20	56.4
Operations research analysts	55	85	30	55.4
Securities and financial services sales workers	200	309	109	54.8
Travel agents	142	219	77	54.1
Computer systems analysts	403	617	214	53.3
Physical and corrective therapy assistants	39	60	21	52.5
Social welfare service aides	91	138	47	51.5
Occupational therapists	33	48	16	48.8
Computer programmers	519	769	250	48.1
Human services workers	118	171	53	44.9
Respiratory therapists	56	79	23	41.3
Correction officers and jailers	186	262	76	40.8

Occupations with the largest job growth, 1988-200, moderate alternative projection

(Numbers in thousands)

Occupation	Employment 1988	Employment 2000	Numerical change	Percent change
Salespersons, retail	3,834	4,564	730	19.0
Registered nurses	1,577	2,190	613	38.8
Janitors and cleaners, including maids and housekeeping cleaners	2,895	3,450	556	19.2
Waiters and waitresses	1,786	2,337	551	30.9
General managers and top executives	3,030	3,509	479	15.8
General office clerks	2,519	2,974	455	18.1
Secretaries, except legal and medical	2,903	3,288	385	13.2
Nursing aides, orderlies and attendants	1,184	1,562	378	31.9
Truck drivers, light and heavy	2,399	2,768	369	15.4
Receptionists and information clerks	833	1,164	331	39.8
Cashiers	2,310	2,614	304	13.2
Guards	795	1,050	256	32.2
Computer programmers	519	769	250	48.1
Food counter, fountain and related	1,626	1,866	240	14.7
Food preparation workers	1,027	1,260	234	22.8
Licensed practical nurses	626	855	229	36.6
Teachers, secondary school	1,164	1,388	224	19.2
Computer systems analysts	403	617	214	53.3
Accountants and auditors	963	1,174	211	22.0
Teachers, kindergarten and elementary	1,359	1,567	208	15.3

*See Valerie A. Personick, "Industry output and employment: a slower trend for the nineties," *Monthly Labor Review*, November, 1989. U.S. Department of Labor, Bureau of Labor Statistics, Washington, D.C.
**George Silvestri and John Lukasiewicz, "Projections of occupational employment, 1988-2000," *Monthly Labor Review*, November 1989.

and retain qualified, well-trained employees from a dwindling supply of workers (see box above).

In a period of economic growth, many company salary systems were geared to length of service and thus rewarded employee loyalty. The 1980s proved to both employers and employees just how fragile a relationship based on underpinnings of mutual loyalty can be. Increasingly, companies are adopting compensation systems that reward employees for performance and are making other changes as well. Whether visibly in the courts and legislatures or quietly through evolving practices at the workplace, the rationale for the employer/employee relationship is being renegotiated.

Table 1: Changing Business Conditions in 1980s (by Industry Group)

	Number of Companies	In Growth Industry	Product Success/ Expansion	Business Maturity/ No Growth	Cyclical Downturn	Low Profits/ Competition	Restructuring Reorganization	Merger/ Acquisition
Manufacturing:	98	31%	34%	27%	20%	27%	48%	41%
Durable goods	52	29	29	23	27	27	52	40
Nondurable goods	46	33	39	33	13	28	44	41
Service:	118	30	31	21	14	29	41	43
Financial Services	70	30	36	17	20	33	37	56
Other Services	48	29	25	27	6	23	48	25
Total (all companies)	216	30	32%	24%	17%	28%	44%	42%

Reaffirming Employment-at-Will

Although workforce shortages are anticipated in the new decade, major U.S. companies continue to trim workers from their payrolls. One study estimates that nearly 20,000 jobs were cut by large U.S. firms during the first half of 1989, about 91,400 during the latter half, and 62,400 during the first month of 1990.[6] Investors' scrutiny of corporate performance persists, as does their applause for cost-cutting moves. "There is a blood lust out there," said one Wall Street analyst, commenting late in 1989 about IBM's plan to eliminate 10,000 jobs through "inducements" rather than layoffs. "The nicer a company is to its employees, the less happy Wall Street is."[7] Study findings suggest that major employers continue to affirm their right to exercise flexibility in hiring and dismissal decisions, while equipping themselves with protective measures against employee suits.

Shifting Business Fortunes And Job Loss

According to the human resources executives participating in this study, the workplace pressures so widely reported in the media throughout the 1980s were daily realities. Just under half of the firms had a major restructuring or reorganization and almost as many experienced merger and acquisition activity. Company fortunes varied. Although 30 percent of the respondents were in a growth industry, another quarter reported that their business had matured and the company growth had plateaued. A third of the executives said that successful products had allowed their company to expand, but almost as many firms (28 percent) suffered from competitive pressures and declining profits (see Table 1 for details and industry patterns).

More than half the participants (and 70 percent of financial service firms) reported an increase in workforce size during the 1980s. A major segment of this group (60 percent) had been part of a merger or acquisition. Workforce size decreased in a third of the companies. Durable goods manufacturers and firms providing nonfinancial services were the hardest hit—more than 40 percent reported cuts (Chart 1).

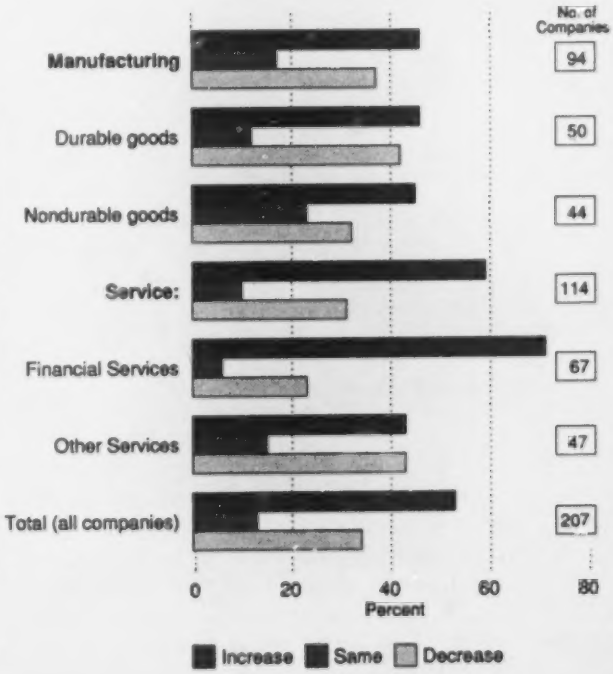
Easing the Pain

Among the 85 companies providing data on workforce reduction in the 1980s, the tally exceeded 550,000 jobs. More

Chart 1

Trend in Size of Workforce During the 1980s

By Industry Group



[6] Figures from a study conducted by Lacey & Company, Cleveland, Ohio, quoted by Gene Koretz, "Job Growth Isn't Hitting on All Cylinders," *Business Week*, February 26, 1990.

[7] John Markoff, "10,000 Jobs To Be Cut By IBM," *The New York Times*, December 6, 1989.

Table 2: Job Loss Among Responding Firms* 1980-1989

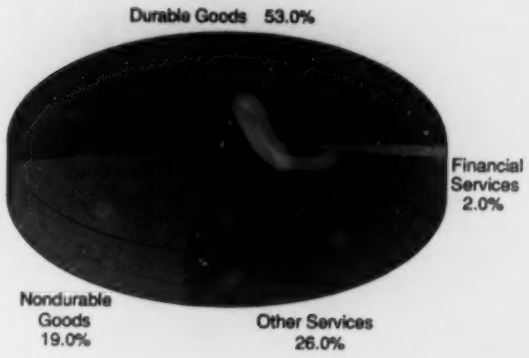
Year	No. of Companies	Median No. of Jobs Cut	Total Jobs Cut	%** Total
1989 (mid year)	14	150	2,401	–%
1988	37	250	35,145	6
1987	35	395	44,253	8
1986	37	500	74,799	14
1985	29	1,000	51,619	9
1984	25	1,100	45,911	8
1983	19	2,000	95,881	17
1982	22	1,700	111,594	20
1981	12	3,000	63,833	12
1980	4	6,750	25,244	5

*Based on data from 85 companies
**Calculated on a base of 550,680 jobs cut.

Chart 2

Respondents Report Job Loss in the 1980s*

By industry Group



*Based on a loss of 550,680 jobs reported by 85 companies

than 70 percent of these jobs were in manufacturing (Table 2 and Chart 2). Many of the firms making job cuts in the 1980s tried to ease the pain by offering workers a variety of options and services. A West Coast banker explains: "All employees who are redeployed are given seven days to accept the severance package (which is based on length of service) or to conduct an internal search. All employees may attend a job search workshop or use course materials. Second level managers and senior professional staff are given an outplacement services option. Efforts are made to place employees internally."

Several of the 104 firms providing such data pointed out that attrition took care of some cuts, and nearly 70 percent of the companies offered alternative employment to all employees or at least selected groups of employees. Virtually all made outplacement services available to some groups of workers. Other options frequently offered by these firms were early retirement incentives, extended health benefits, and severance pay beyond normal policy limits.[1] (See Table 3a and 3b.)

[1] For additional information on retirement see Helen Dennis, Retirement Planning: Corporate Perspectives for the 1990s, The Conference Board, Perspectives No. 20, 1990.

Table 3A: Service Offered to Workers Affected by Job Loss in 1980's Ranked by Availability

Option	Percent of 104 Companies Offering Options
Outplacement Services	90%
Early Retirement Incentives	68
Alternative Employment With Co.	67
Extended Health Benefits	67
Severance Pay Beyond Normal Policy	59
Early Notice of Layoff	50
Retraining Opportunities	36
Protection by Seniority	35
Open Window Plan	32
Negotiated Give Back:	
–Salary Reduction	21
–Reduced Schedule	14
–Incentives Linked to Salary reduction (e.g. profit sharing)	11
Contingent Employment	6

Table 3B: Employee Groups Eligible For Services Offered To Workers Affected by Job Loss in 1980s

Option	Number of Mentions	Offered to: All Affected Employees	Unionized Employees	Other Selected Groups of Employees
Outplacement Services	98	46%	2%	53%
Early Retirement Incentives	78	39	6	55
Alternative Employment With Co.	74	32	6	59
Extended Health Benefits	76	71	7	22
Severance Pay Beyond Normal Policy	63	49	3	48
Early Notice of Layoff	56	68	14	18
Retraining Opportunities	40	35	20	45
Protection By Seniority	42	24	57	19
Open Window Plan	35	43	6	51

Legal Battles: Some Indicators

Varying numbers of respondents were able or willing to provide data about their firms' experience with legal actions brought by employees claiming wrongful discharge. As Table 4 indicates, among the 203 firms supplying data, 41 firms had no wrongful discharge suits. Just over half of the firms having suits provided data on the number. In the five-year period ending in 1988 these 110 firms estimate that a total of 1,500 actions were brought by employees. Among individual respondents, the number of suits ranged from 1 to 300, with a median of eight. Firms settled 740 actions in the same period, but some of those actions probably originated earlier in the 1980s. The median number of suits settled was three, but numbers ranged from 1 to 70.

Basis for Suits

A smaller number of firms (73) supplied information on the kinds of suits brought during this period. Among the 644 suits reported, the violation of *state or federal discrimination laws* was the basis in almost half. Such laws prohibit discrimination on the basis of race, sex, age, physical handicap, and so on. Respondents report that one category of suits—those charging age discrimination—is growing.

Just over half the cases were *common law* violations: breach of a covenant of good faith was the charge brought in about a third of all cases. The covenant of good faith argument usually involves the plaintiff's assertion that he/she was dismissed for unfair or malicious reasons. Charges of breach of an implied contract were made in an additional 18 percent of the suits. In only one percent of the cases did employees contend that their employer had violated the intentions of *public policy*. In such cases, employees may allege that they have been terminated for activities ranging from whistle-blowing to refusal to engage in an illegal activity to filing a legitimate Workman's Compensation claim. Unlike contract law violations, these are tort suits and may result in punitive damage awards to a plaintiff.

Damages

Of the 109 firms supplying data, 64 say that they had no suits resulting in compensatory or punitive damages, while 45 report that they settled a total of 162 suits in which such damages were paid. The number of suits ranged from 1 to 25, and the median was two suits.

Many suits settled out of court

Seventy firms provided data on the number of cases settled by the court versus those which were resolved outside the courtroom. Roughly 20 percent of the cases were settled by the courts with the remaining 80 percent resolved out of court.

Does workplace atmosphere have an impact on lawsuits?

Increased numbers of lawsuits are reported by about a quarter of those executives who say that their firm "tries to promote a family atmosphere in the workplace" or who agree that "loyal employees should be assured employment so long as the business remains viable." In contrast, lawsuits increased in 40 percent of the firms whose executives say that these two statements do not reflect the atmosphere or thinking in their company. Roughly 30 percent of each group report no lawsuits or a decrease, and the remainder report no change.

Reassessing the Employment Relationship

One reason that human resources consultants advise companies to follow "humane" termination practices is that disgruntled employees may be more likely to sue. Large scale workforce cutbacks by corporations in the 1980s suggest one explanation for an upsurge in lawsuits in that period. An increase in suits is reported by about a third of the survey group as a whole and by 40 percent of durable goods manufacturers. A greater proportion of durable goods firms also report making workforce cuts during that decade (see Chart 1). But only a modest portion of financial service firms (20 percent) reported job cuts in the 1980s—yet one third of respondents in this industry indicate that lawsuits increased (see Table 4). An important factor cited by these firms, as well as respondents from other industries, is a growing number of discrimination suits—especially those based on age discrimination (see Box).

No Guarantees

Has employer/employee contention during the past decade made companies more cautious and even "hard-nosed" about the employment relationship? Almost 90 percent of the human resources executives surveyed agree with the statement: "*Our company cannot assure our workforce continued employment. But, to retain qualified employees we offer incentives...*" The vast majority of participants have a statement saying that employment is "at will", and most adopted that statement in the 1980s. A handful of respondents (28 firms)

Table 4: Trend in Wrongful Discharge Lawsuits – 1984-88

	No. of Companies	Increase	Remain Same	Decrease	None
Manufacturing:	91	31%	42%	13%	14%
Durable goods	47	40	32	11	17
Nondurable goods	44	20	52	16	11
Service:	112	35	31	9	25
Financial Services	67	33	33	7	27
Other Services	45	38	29	11	22
Total (all companies)	203	33	36	11	20

Table 5: Employment Policy: Current Guiding Principles (by Industry Group*)

	Total (all companies)	Manufacturing	Durable goods	Nondurable goods	Service	Financial Services	Other Services
Employment Security							
Employees who are loyal to the company and further its business goals deserve an assurance of continued employment, so long as the business remains viable.	56%	62%	62%	63%	50%	51%	49%
Our company cannot assure our workforce continued employment. But, to retain qualified employees, we offer incentives (e.g. a challenging work environment, skill development, performance-based compensation).	87	85	81	88	88	89	87
Workforce Management							
We hope to retain a group of core employees who are trained in skills specific to our needs. Short term or cyclical labor demands are met with workers who are temporary, part time or on contract.	54	51	46	57	55	54	58
Employer/Employee Relationship							
Employers and employees have a solely financial/business relationship focused on the maintenance and growth of the enterprise.	51	46	43	48	55	62	44
Our firm tries to maintain a family atmosphere in the workplace.	50	48	44	54	51	49	54

*Based on responses by 198 firms.

had some form of employment assurance policy at one time during the 1980s, but many discontinued this policy. In half of the 14 companies that continue to assure employment, the policy applies only to some groups of employees (see Exhibit 2 on page 25).

Although respondents acknowledge that their firms cannot assure employment, over half agree that their current guidelines are compatible with the view that:

"*Employees who are loyal to the company and further its business goals deserve an assurance of continued employment, so long as the business remains viable...*" More than 60 percent of the manufacturers espoused this view, compared to half of the service firms (see Table 5). Executives added these clarifications:

- "Our objective is employment stability; layoffs are implemented only as a last resort." (A manufacturer)
- "We temper our 'employment at will' stance with fair and humane employment practices." (A service firm)
- "We share success and provide job security to employees as long as we are meeting our financial goals and can do so." (A manufacturer)
- "For many years stability of employment was a hallmark of our industry. Due to the changing nature of the business, slower growth, increased competition and a proliferation of government regulations, that era has ended." (A utility)

Just over half of the firms attempt to protect jobs through managing their workforce needs (see Table 5 and Exhibit 3). These firms hope to retain a group of core employees who are trained in skills specific to meet their needs. The executives try to meet short-term or cyclical labor demands by using workers who are part-time, temporary or on contract. Nearly 20 percent of the companies that do not currently manage their workforce needs expect to do so by the early 1990s.

Corporate Self-Protection

Most of the firms surveyed reviewed their personnel policies and practices during the 1980s—a move urged by corporate attorneys and human resources consultants. Ninety-seven percent of financial service firms conducted such a review, compared to about 80 percent of other service firms and 90 percent of manufacturers. Of the handful of firms that did not con-

duct a review, the majority expect to do so before 1991. Many executives reported that their review of policies and practices is ongoing, but nearly two thirds of the 155 executives who supplied a specific year for the most recent review said it was done since 1984.

In more than 60 percent of firms, the review produced a written statement saying that employment is "at will." Overall, 85 percent of the respondents have an "at-will" statement, which typically appears in the employee handbook or on the employment application form, but may also be included in offer letters and the personnel policy and procedures manual (see Exhibits 4 and 5, pp. 27-28). Over half of this group requires that employees sign the statement, a practice prevalent in three-quarters of financial service firms (Table 6). In the bulk of these firms, only newly hired employees are required to sign, but a handful of companies (20) asked current as well as newly hired employees to sign the statement.

Table 6: Firms Requiring Signature on Employment-At-Will Statement (by Industry Group)

	Number Responding	Percent Requiring
Manufacturing:	74	59%
Durable goods	40	62
Nondurable goods	34	56
Service:	104	67
Financial Services	64	73
Other Services	40	57
Total (all companies)	178	64

Employee Handbooks, Recruitment, Appraisal

Human resources consultants place employee handbooks and verbal promises high on the list of materials and activities that companies should scrutinize. In many cases, employees have claimed that wording in the company handbook or a statement made by the employment interviewer assured them that they could be dismissed only for just cause. The courts have sometimes ruled that such assurances constitute an "implied contract" between employer and employee. Experts suggest that a finding of an "implied contract" could undermine a firm's "at will" statement. At least 80 percent of those companies making a review report that they revamped their employee handbook as a result. More than 60 percent of the firms developed or revised the guidelines used by individuals who are responsible for hiring and terminating employees and forty percent reworked their recruitment literature (see Table 7).

The performance appraisal system was the target for change in four-out-of-ten firms. Some companies lost court cases when their system for assessing employee performance and

Table 7: Matrix: Actions Resulting from Review of Policies, Practices, Publications

	Number of* Firms Taking Action	Employ. At Will Stmt.	Employee Handbook	Recruit. Lit.	Hiring & Termin.	Perform. Appraisal	H.R. Development	Grievance Procedure
Developed statement affirming employment at will	117	—	86%	45%	66%	44%	28%	23%
Revamped employment handbook	152	66	—	44	65	49	28	22
Revamped recruitment literature	75	71	89	—	76	64	39	31
Developed/revised guidelines for hiring and termination	116	66	85	49	—	58	35	26
Developed/revised performance appraisal system for human resource development	82	63	90	59	82	—	45	34
Instituted/improved system for human resource development	48	69	90	60	83	77	—	35
Instituted/improved employee grievance procedures	37	73	89	62	81	76	46	—
All Companies	187	62	81	40	62	44	26	20

*Read table horizontally to determine the percentage of companies undertaking multiple activities, e.g., of the 117 firms developing an employment at will statement, 86% also revamped their employee handbook.

documenting reasons for promotions, discharge, layoffs or merit pay was judged to be subjective and/or biased. Experts counsel companies to use written performance appraisals based on job-related criteria, to document employee strengths as well as weaknesses, to communicate both to the employee, to create an appeals mechanism for employees who disagree with an appraisal, and to audit continuously the entire appraisal system.[9]

Roughly 20 percent of the respondents have developed a lobbying position on the wrongful discharge issue. Among these 44 firms, all but four favor a reaffirmation of the employment at will doctrine; 23 favor limitations on punitive damage awards in wrongful discharge suits; and, 5 favor the use of impartial arbitration panels to settle employment disputes.

Grievances and Remedies

The best defense against some types of litigation may be to deal with employee grievances before they turn into suits. Union contracts usually protect members from arbitrary dismissal or discipline by requiring "due process." Many firms make due process or some form of grievance procedure available to nonunion employees. In fact, only 15 respondents were without a grievance procedure for their nonunion employees and four of these expect to initiate at least one grievance procedure. About 20 percent of the 201 respondents who have a grievance system adopted it as the result of a review of personnel policies during the 1980s. Overall, the participants in the study appear to be satisfied with their current procedures—only 25 firms expect to add any new features to their grievance system over the next few years.

An Appeals System

The most frequently used methods for employees to air their grievances are an "Open Door" policy and a step-by-step review system (see Exhibit 5). Both enable an employee to seek resolution of a grievance through appealing first to their supervisor and then to progressively higher levels of management. In general, the open door—a standing invitation to air work-related problems—is the more informal of the two approaches. The step-by-step review is a more programmatic approach. It might require a written grievance statement, provide a timetable for working through certain categories of grievances and specify which management levels are to be involved in each stage of the review. More than 80 percent of the respondents have and "Open Door" policy and the vast majority have a statement of this policy in the employee handbook or other employee literature. A step-by-step review is used in 60 percent of the firms, and more than half of the respondents who have a grievance system use both methods. An additional 20 companies expect to adopt one of these methods in the next few years.

[9] See Robert Goddard, "Is Your Appraisal System Headed for Court?," *Personnel Journal*, January, 1989.

Deliberation and Arbitration

Another possibility for reviewing employee complaints is to establish an internal panel to review grievances. Such panels are not uncommon in unionized companies, where they function as deliberative bodies, hearing and weighing evidence before reaching a joint decision about a grievance. Almost 15 percent of the firms say they use a panel system to review grievances of nonunion employees. The majority of these firms are unionized, suggesting that the panel may have grown out of experience in handling union grievance matters. Among the 29 firms with panels, 12 include both managers and peers of the employee and the remainder are constituted of managerial and supervisory persons—four firms specifically mentioned the participation of employee relations or human resources executives. A dozen firms report a related practice—they sometimes go to an outside arbitrator. In the near future, 10 firms plan to set up a panel review system and five expect to adopt outside arbitration.

A Designated Mediator

About 20 percent of the respondents have designated a person other than the supervisor, management or human resources executive whom employees can contact to air their grievances. In 27 firms, this person is the administrator of a "mail-in" system—employees record grievances on a special form, send it to the program administrator, and are guaranteed confidentiality as well as a reply to the problem or question they have raised. In 19 companies, this person is the corporate "ombudsman." The ombudsman is employed by the company, but functions as a neutral link between employees and management, listening to grievances and working with employees and supervisors to resolve the situation in the best interests of both. An ombudsman in a consumer products company (whose two-person staff handles about 400 cases a year) describes this role as "providing a release valve for employees and a sounding board for managers and supervisors." Six respondents expect to add an ombudsman to their staff in the next few years, and two firms will adopt a "mail-in" system.

Corporate Paternalism: Waning But Not Dead

Ample benefits, length-of-service awards, and retirement parties with the presentation of a gold watch—such images instilled loyalty and fostered a belief in the company as a *pater familias* among past generations of employees. Half of the respondents agree that their company currently tries to "maintain a family atmosphere in the workplace." Producers of nondurable goods and nonfinancial service firms are most likely to promote a family atmosphere. Over 60 percent of financial service firms and half of all respondents agree that "employers and employees have a solely financial/business relationship focused on the maintenance and growth of the enterprise (see Table 5)."

Almost a quarter of the executives say that their company tried to preserve a family environment in the past, but no longer

does so. Looking ahead, about 10 percent of respondents believe that their firm is likely to promote a family atmosphere in the next few years, but another 15 percent expect to move toward a solely financial/business relationship with employees.

Corporate viewpoints on this subject may be in transition. A third of the executives believe that their company currently espouses both views. A manufacturer noted: "We have a paternalistic philosophy but we are departing from it."

Others respondents suggested that their firm now substitutes a team for a family environment: "*We promote an environment for our employees that is both challenging and rewarding and that fosters individual initiative and teamwork.*"

A banker explains: "We are in a consolidation effort for the entire corporation...Change is the only guarantee we have...As a result, I foresee a shift from the family way we have been doing business to perhaps a less personal approach." Some firms hope that the shift to a strictly business approach will dissuade employees from seeking legal recourse in the future. (See box.)

A Workplace in Transition

Human resources executives face a major challenge in the 1990s. They must help engender the employee commitment needed to assure continuity and stable progress in their companies. But to avoid stagnation and obsolescence, they must work to infuse fresh ideas into their firms' operations. Experts suggest that human resources executives must help people out of jobs as well as into them.[10] New approaches are needed to recruit some workers for a specific job without implying a long-term career. Alternating periods of employment upsurges and downturns, low growth, steady growth and stability must be factored into future workforce planning. Data from this survey suggest that most responding firms are already taking strides to become a company-of-the-future.

Workforce Management

Respondents are beginning to examine their employment needs in order to plot workforce strategies for the 1990s—about 20 percent have already made a formal effort to map their firms' short- and long-term employment needs. "We are working with our community and educators to bring a clear sense of workforce expectations and needs into schools," said an executive from a financial service firm. Of the remaining firms, 60 percent said they are likely to begin this task soon. Just under a third might consider such a strategy sometime in the future. About 10 percent of the respondents rule it out as "not an option for their firm." For example, a respondent from a medium-sized manufacturer explains: "We have investigated formal manpower planning models in the past, but decided that formal systems did not offer a significant advantage to a firm of our size."

Anticipating Workforce Shortages

More than 90 percent of service firms anticipate workforce shortages in the 1990s, as do 80 percent of manufacturers. A third of the executives in financial service firms anticipate that the shortages will be major. "The greatest problems will be in entry-level jobs—tellers, word processing, data entry and customer service clerks," said a bank executive. "Our market is within a full-employment SMSA experiencing the most rapid growth in the state," said another.

The majority of respondents expect moderate workforce shortages, often in specific technical areas such as mechanical or electrical engineering. At the low end of the scale, some firms are trying to upgrade non-qualified candidates to entry-level positions. "We're involved in math and reading skills remediation as part of pre-employment training," reports a utility executive.

Those executives who have already mapped their workforce needs are more likely to expect that shortages will have a moderate impact—almost three-quarters do so, and only 17 percent predict a major shortage. Among those companies that have not done a workforce scan, 60 percent expect moderate shortages and a quarter anticipate a shortage of major proportions. Companies employing a large number of employees are only slightly more likely to predict major shortages than are smaller firms (see Tables 8a, 8b and 9).

Employees of the '90s: Fewer Lawsuits?

Even as stories of restructuring, mergers and acquisitions, job loss and court decisions favoring "wronged" employees continue to draw attention in the popular press, professional journals are counseling human resources executives to prepare for a new order and a new breed of employee. Experts say that the employee of the '90s will be self reliant: anxious to be rewarded for knowledge, skill and performance rather than years of service; and able to manage his or her career within and among companies. The new employee will be ready to move on when the supply of work, or its challenge, diminish. As a senior human resources executive in a major corporation expressed it, the ideal in his firm is to provide a stimulating work atmosphere in which employees will be "ready to go, but eager to stay."

If this shift in employees' mindset occurs, one result may be a decrease in wrongful discharge suits. When firms severed the bonds of *shared loyalty* and dismissed workers in the 1980s, some of the "good soldiers" nurtured by the company-of-the-past sought legal redress. In contrast, the self-sufficient employee in the company-of-the-future is expected to recognize that job loss is one outcome of a bond of *shared risk*. If necessary, that employee will move on to a new employment opportunity.

[10] See Joel R. DeLuca, PhD., "Strategic Career Management in Non-Growing Volatile Business Environments," *Human Resources Planning*, Volume 11, November 1, 1988. Also, Randall S. Schuler, "Personnel and Human Resource Management Choices and Organizational Strategy," *Human Resources Planning*, Volume 10, November 1, 1987.

Table 8a: Expectations of Workforce Shortages During the 1990s (by Industry Group)

	No. of Companies	Percent Expecting Shortages	Shortages Will Be: Minor	Mod.	Major	Unsure
Manufacturing:	96	81%	8%	66%	14%	11%
Durable goods	51	80	8	59	19	13
Nondurable goods	45	82	9	73	9	9
Service:	118	92	2	57	30	10
Financial Services	70	97	–	52	34	14
Other Services	48	85	5	66	24	5
Total (all companies)	214	87	4	61	24	11

Table 8b: Impact of Workforce Shortages During the 1990s (by Industry Group)

	No. of Companies	Recruitment Minor	Mod.	Major	Unsure	Competitiveness Minor	Mod.	Major	Unsure
Manufacturing:	96	7%	69%	15%	9%	30%	51%	4%	15%
Durable goods	51	3	64	18	15	29	44	5	22
Nondurable goods	45	11	75	11	3	30	58	3	8
Service:	118	3	56	30	11	26	47	10	16
Financial Services	70	1	52	34	12	24	48	12	15
Other Services	48	5	63	22	10	30	45	7	17
Total (all companies)	214	4	62	23	10	28	49	8	16

Service firms are twice as likely as are manufacturers to predict that future shortages will have a major impact on their efforts to manage and recruit a workforce. Overall, about a quarter of the respondents expect a major impact, and more than 60 percent foresee a moderate problem (Table 8b). Those who have already mapped out their needs differ little on this issue from those who have not done so.

Respondents predict that workforce shortages will have a less serious impact on their firms' performance and competitive position than on their own efforts to recruit and manage a workforce. About 15 percent are unsure what the impact on performance and competitive position will be, while a quarter predict a minor impact. "The competition will be facing similar shortages," a retailer quips. Roughly half the respondents express a moderate concern, and this figure rises to 58 percent among those who have not yet considered their workforce needs. Large employers are somewhat more likely to anticipate an impact on performance and competition than are those that employ the smallest number of employees (Table 9).

Table 9: Expectation of Workforce Shortages During the 1990s and Their Impact (by Number of Employees)

	Employee size: Under 3,000	3,000 to 10,000	10,000 or more
Number of Companies	57	57	69
Expect Shortages	86%	82%	91%
Shortages will be:			
Minor	7%	4%	3%
Moderate	57	63	63
Major	22	21	27
Unsure	13	12	7
Impact on workforce management and recruitment will be:			
Minor	2%	5%	4%
Moderate	65	60	61
Major	23	25	25
Unsure	10	10	10
Impact on Performance & Competitiveness will be:			
Minor	30%	28%	26%
Moderate	49	46	50
Major	3	9	10
Unsure	17	17	13

Two Tiers of Employees?

Some employment policy theorists believe that a "two-tier approach" may serve as a useful model for envisioning the

workplace of the 1990s.[11] More than half of the respondents (see Table 5) are working toward such an arrangement. These firms develop a core group of employees who are trained or cross-trained to fill positions that are specific to that company's needs; short-term and cyclical demands are filled with workers who are temporary, part-time or on contract. In an ideal rendering of this model, the first tier of employees would be multi-skilled, manage through teamwork, and participate in gainsharing or bonus plans based on increased productivity. To ensure a level of stability and continuity in the firm, this core group of workers would be given at least a limited assurance of job security.

For those firms that hope to meet changing needs while retaining stable core group of employees, an active program of retraining or cross-training of current employees is often a necessity. About 30 percent of firms are currently taking this step. Nearly 60 percent of the remaining firms are planning or will consider retraining or cross-training in the near future, and only six percent reject it as on option for their firm. Currently, service firms lag slightly behind manufacturing firms with 38 percent reporting this practice compared to 42 percent of all manufacturing respondents and 47 percent of firms producing nondurable goods.

The ideal second-tier of the future employees would include a large segment of professional and semiprofessional or technical workers—as well as clerical or other support workers—who could be employed by the firm for periods ranging from hours or days to several years. These employees would have no expectations of continued employment with the firm, but would be well-paid, based on their specific knowledge, skills and contribution to the work assigned. Careerists in this group would plan for a work life that spanned several firms. Theorists acknowledge that major changes in compensation, pensions, benefits and other work practices are needed before this ideal can be realized in a way that would assure that the second-tier group would not become "second class."

Commonly Used Strategies

Although realization of the ideal two-tier workforce may still be far in the future, most respondents are currently making some attempt to manage workforce fluctuations (see Exhibit 6 on page 29). Time-tested methods such as use of purchased services (temporary workers, consultants, etc.), transfer policies that encourage employees to move between company locations as job opportunities develop, or increased investment in automation and technology are the most popular (see Table 10). At least a third of the responding firms are experimenting with other approaches such as flexible work practices, an internal pool of employees, targeted turnover and phased retirement incentives:[12]

Table 10: Methods for Managing Fluctuations in Workforce[1]

	Percent Using Currently	Not Now Using . . . But A Future Possibility	Not Now Using . . . Not An Option
Use of purchased services (temps., consultants, etc.)	78%	70%	30%
Increased investment in automation/technology	77	76	23
Transfer policies that encourage movement between company locations	62	65	35
Developing internal pool of employees	41	79	21
System of flexible work practices	36	86	14
Targeted turnover of current employees	35	67	33
Phased retirement incentives	20	59	41

[1]Based on responses from approximately 200 firms.

Flexible work practices. More than 40 percent of service firms use a system flexible work practices, compared to only a quarter of manufacturers. This may include job sharing, a compressed work week and flexible hours. A third of the firms without such a system may adopt it in the future—this figure rises to 40 percent among manufacturers of durable goods.

Internal pool of employees. In contrast to workers hired from a temporary agency, pool members are paid directly by the company and the pool is managed internally. Firms indicating they favor a two-tier employment approach are somewhat more likely to use a pool—55 percent do so compared with 40 percent of the group as a whole. Almost 80 percent of the firms not now using such a pool may do so in the near future. Financial service firms lead other industry groups in using an internal pool of employees—almost half of this group does so, compared to 37 percent of other service firms and 30 percent of manufacturing firms. Although members of such a pool may be full-time employees, they are more likely to be on call as needed, and are sometimes former employees.

Targeted turnover. Only one third of respondents use this option, but almost 70 percent are investigating or will consider it in the near future, as human resource executives search for ways to move people out of jobs. This may involve a more thorough review of job performance and dismissal of less productive employees, automation of jobs, replacement of full-time jobs with purchased services, phased or early retirement and so on.

Phased retirement incentives. These plans allow employees

[11] See DeLuca, Footnote 10.

[12] For more information on company practices, see Kathleen Christensen, Flexible Staffing and Scheduling in U.S. Corporations," The Conference Board, Research Bulletin No. 240, 1989.

Table 11: Matrix: Methods Used to Manage Fluctuations in Workforce

Method	Number* Using Method	Percent Using Additional Methods: Targeted Turnover	Phased Retirement	Purchased Services	Internal Pool	Use Autom./ Technol	Transfer Policies	Work Practices
Targeted turnover of current employees	70	—	29%	90%	56%	86%	71%	47%
Phased retirement incentives	40	50	—	85	35	80	73	50
Use of purchased services (temps., consultants, etc.)	161	39	21	—	43	85	68	37
Developing internal pool of employees	81	48	17	85	—	79	73	43
Increased investment in automation/technology	157	38	20	87	41	—	66	41
Transfer policies that encourage movement between company locations	128	39	23	85	46	81	—	44
System of flexible work practices	76	43	26	79	46	84	74	—
All Companies	216	32%	19	75	37	73	59	35

*Read table horizontally to determine the percentage of companies using multiple methods.

to reduce the number of hours worked over a period of time prior to retirement. Only about 20 percent of respondents use such incentives, but as many as 60 percent may adopt this practice in the future. A small percentage of financial service firms currently use such incentives; this group is most likely to report that such incentive are "not an option" for their firm.

Almost half of the respondents currently use four or more of these options. The matrix in Table 11 shows how firms combine options.

Recruiting Now and For the Future

"We intend to maintain a status of being a premier employer in our community," said a respondent from a financial services firm. This echoes the aspiration of executives in many firms who hope to maintain a competitive edge by attracting the best employees as an acknowledged "employer of choice" for the 1990s. Since respondents anticipate that worker shortages will reach at least a moderate level of severity, what steps will they take to attract the best? Their responses offer several clues (see Chart 3 and Table 12 on page 18).

Current Indicators

Interesting, challenging work tops the list among current recruitment incentives, followed closely by opportunities for advancement. In a period when companies have streamlined staffing and removed management layers, such goals can be illusive, and the majority of respondents (over 70 percent) believe that employees cannot rely on the company, but should be self-sufficient about managing their careers within the firm—or moving to another company if that furthers their objectives.

Career development. Respondents appear to be forging a foundation for a new, voluntary bond with employees. Eight-out-of-ten executives said their firms work with employees to promote career development (Table 12 and Exhibit 7, pp. 30-31). Several respondents stressed that career development is a "shared responsibility." "We work with employees...but believe that employees should exhibit initiative," a manufacturer comments.

"Career development is voluntary on both parts," said a banker. We provide the training, experiences and opportunities, but employees must in the end take responsibility for how far they go."

About two-thirds of the firms that do not aid employees with career development said that they expect to adopt the approach in the 1990s.

Performance-based compensation. Responses suggest that the days of annual pay increases based on length of service may be over. As a recruitment incentive, participants ranked performance-based compensation among the top four (see

Chart 3:

Current and Future Importance of Selected Recruitment Incentives

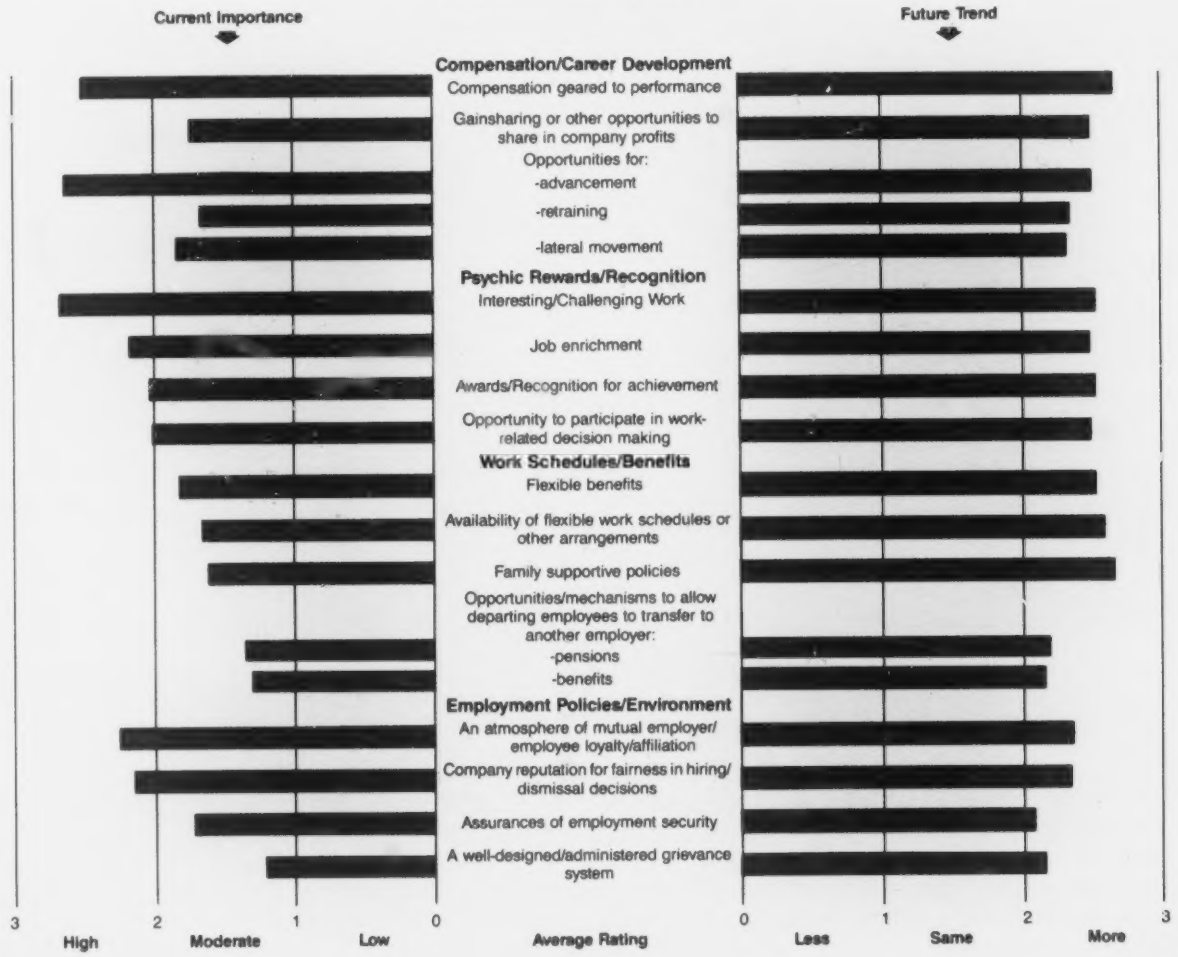


Table 12: Availability of Performance-Based Compensation and Commitment to Career Development (by Industry Group*)

	Our firm works with employees to promote their career development	Employees are responsible for managing their own careers within and among companies.	Firm has a compensation system based on "pay for performance"
Manufacturing:	82%	68%	66%
Durable goods	84	65	69
Nondurable goods	80	71	63
Service:	86	75	79
Financial Services	83	77	80
Other Services	89	72	77
Total (all companies)	84	71	73

*Based on Responses by approximately 200 companies.

Chart 3 and Exhibit 8, page 31). Over three-quarters of the service firms and two-thirds of manufacturers report that they have such a system in place (see Table 12). While one skeptical respondent expressed the opinion that "Pay for performance is a lie," a manufacturer of consumer goods reported that "Gainsharing or other work-unit based performance-related pay systems are in effect for virtually all employees." "In addition," said the manufacturer, "we have an ongoing effort to make the 'merit pay' component of compensation more truly performance related."

Gainsharing. Other respondents may be still be experimenting with the components of their pay for performance system, "Gainsharing" and other opportunities to share in company profits does not rank highly as a current incentive, but half the respondents expect it to grow in importance in the future.

Employer/employee loyalty and affiliation. Despite indications that paternalism is dwindling in responding firms, executives indicated that "an atmosphere of mutual employer/employee loyalty and affiliation" still ranks high as a recruitment incentive. Nearly 40 percent give it high marks now and expect its importance will increase, while 60 percent predict it will remain at the same level.

Fairness in hiring and dismissal decisions. Respondents believe a company's reputation for fairness is important to recruitment efforts—40 percent rate it highly important. The bulk of executives expect reputation for fairness to continue to be as important in the future, while a third predict it will become more important.

Grievance system. The presence a well-designed and administered grievance system is considered a moderate plus by about a third of the participants. But the remaining two-thirds assign it a low priority.

Employment security. Assurances of employment security are not judged to be of major importance in recruitment. Roughly 20 percent of the executives expect employment security to become more important in the future, and this is more pronounced in manufacturing than in service firms. About 15 percent of respondents suggest that employment security will become less important, and the remaining firms predict no change.

In The Future—Some Major Shifts

Adjustments to work schedules and benefits top the list of incentives likely to grow in importance as firms try to lure employees in the 1990s, while performance-based compensation will retain its allure. Three incentives reverse their rank on the low end of the scale of current attractions: employee assistance programs, flexible hours and flexible benefits (see Chart 4).

Family supportive policies and flexibility. Only 15 percent of executives rate policies which aid workers with families (parental leave, child care) highly important today, but almost 70 percent predict they will grow in importance in the next few years. Almost 60 percent expect flexible work schedules and other arrangements to become more attractive to recruits, in contrast to 15 percent who dub them highly important today. Well over half the respondents expect similar growth in the importance of flexible benefits, while just over 20 percent rank them highly at present.

Recognition. Studies have shown that employees value management recognition of their efforts and achievements almost as highly as compensation.[1] More than half of the respondents of this study predict that employee awards and recognition will grow in importance over the next few years, and a third say that such kudos are highly important to their firms' recruitment efforts today. Although 30 percent of the executives give awards and recognition a "low" ranking, only two percent expect such acknowledgments to be less important in the future.

Stimulating and participatory work. Interesting/challenging work will remain an important recruitment incentive to future employees. Half of the respondents see it increasing in importance while the other half expect it to retain at its current level of importance.

Just under half expect opportunities for advancement to grow in attractiveness. Since such opportunities may be limited in the future, many companies are trying to attract and hold valuable employees through job enrichment programs. This may include involving employees in work-related decision making, often as members of teams, or by adding more challenging responsibilities to their current jobs, (e.g., increased managerial responsibility). Half of the firms expect both job enrichment and employee participation in decision-making to be more effective as "bait" for future recruits. Currently about a third rate job enrichment highly important and a quarter assign this rating to employee participation.

Training. To attract new recruits and keep them involved, some firms will tout their capability to retrain employees or to facilitate lateral movement to new jobs. Only 17 percent of the firms see either of these options as a highly attractive recruitment incentive today, but nearly 40 percent expect that each of these opportunities will be more important in the future.

Pensions and Benefits. Since the employee of the future is less likely to plan a lifetime career with just one company and few firms plan to make promises of job security, one incentive companies might offer new recruits is *portability* in their pension and benefit packages. This would allow an employee to build a pension and to protect and continue benefits coverage through a career spanning several companies. Experts suggest that some kind of portability is one of the changes corporate America must make if it hopes to achieve the flexibility offered by a two-tier workforce, or some adaptation of the two-tier model. Not surprisingly, only eight percent of the respondents see portability as a highly important incentive, while 70 percent give it a low ranking. However, about 30 percent expect its importance to increase in the future; only about 10 percent predict that it will be less important.

[1] See Holly Rawlinson, "Make Awards Count," *Personnel Journal*, October, 1988.

Table 13: Recruitment Incentives: Indicators of Change by Industry Group

Incentives:	Level of Importance: Now and Future							
	MANUFACTURING				SERVICE			
	Durables		Nondurables		Financial		Other	
	Now Low	Future More	Now Low	Future More	Now Low	Future More	Now Low	Future More
Compensation/Career Development								
Compensation geared to performance	4%	62%	11%	57%	6%	68%	4%	58%
Gainsharing or other opportunities to share in company profits	51	55	47	57	40	42	51	49
Opportunities for:								
—advancement	4	50	2	55	4	47	9	41
—retraining	42	44	49	37	46	43	56	30
—lateral movement	32	42	35	46	33	38	35	22
Psychic Reward/Recognition								
Interesting/Challenging Work	4	52	2	54	2	46	2	49
Job enrichment	14	60	16	58	11	50	24	33
Awards/Recognition for achievement	27	52	36	56	27	54	30	48
Opportunity to participate in work-related decision making	13	56	15	50	32	48	28	48
Work Schedules/Benefits								
Flexible benefits	44	53	48	62	29	59	43	47
Availability of flexible work schedules or other arrangements	69	67	47	49	39	62	41	58
Family supportive policies (e.g. parental leave, child care subsidies)	67	67	55	67	42	70	45	62
Opportunities/mechanisms to allow departing employees to transfer to another employer:								
—pensions	75	23	66	37	72	37	70	31
—benefits	72	24	67	30	73	36	70	26
Employment Policies/Environment								
An atmosphere of mutual employer/employee loyalty/affiliation	11	40	11	37	17	44	17	26
Company reputation for fairness in hiring/dismissal decisions	29	25	20	41	25	38	15	35
Assurances of employment security	39	24	37	25	39	15	41	14
A well-designed/administered grievance system	80	22	67	17	57	29	69	22

Table 13 shows what change industry groups expect in the importance of all incentives over the next few years.

Seven Implications for Future Decision Makers

Major companies are assembling the elements of a new employment policy. Although the the completed pattern is not yet apparent, findings from this study suggest seven signposts for future direction:

(1) Continued movement away from corporate paternalism and heightened emphasis on employee self-sufficiency. As seen in Chart 5, in current recruitment efforts, companies promoting a family environment are more likely to stress such incentives as shared loyalty, fairness, the importance of awards and recognition, gainsharing and retraining than are those firms which eschew a family atmosphere. Those with a family environment expect such incentives to remain as important in the future.

Chart 4

What Incentives are Important for Recruiting Employees?

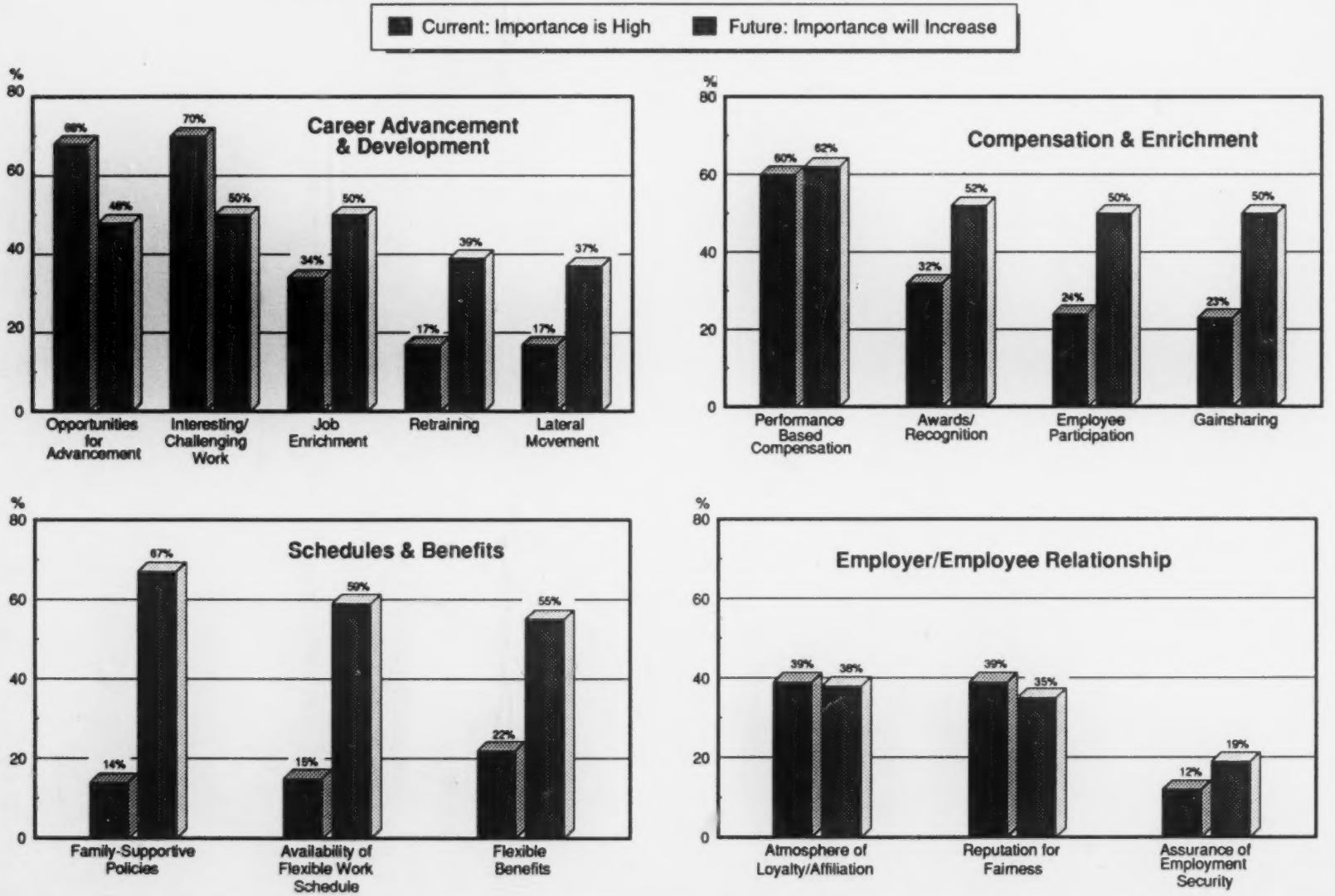
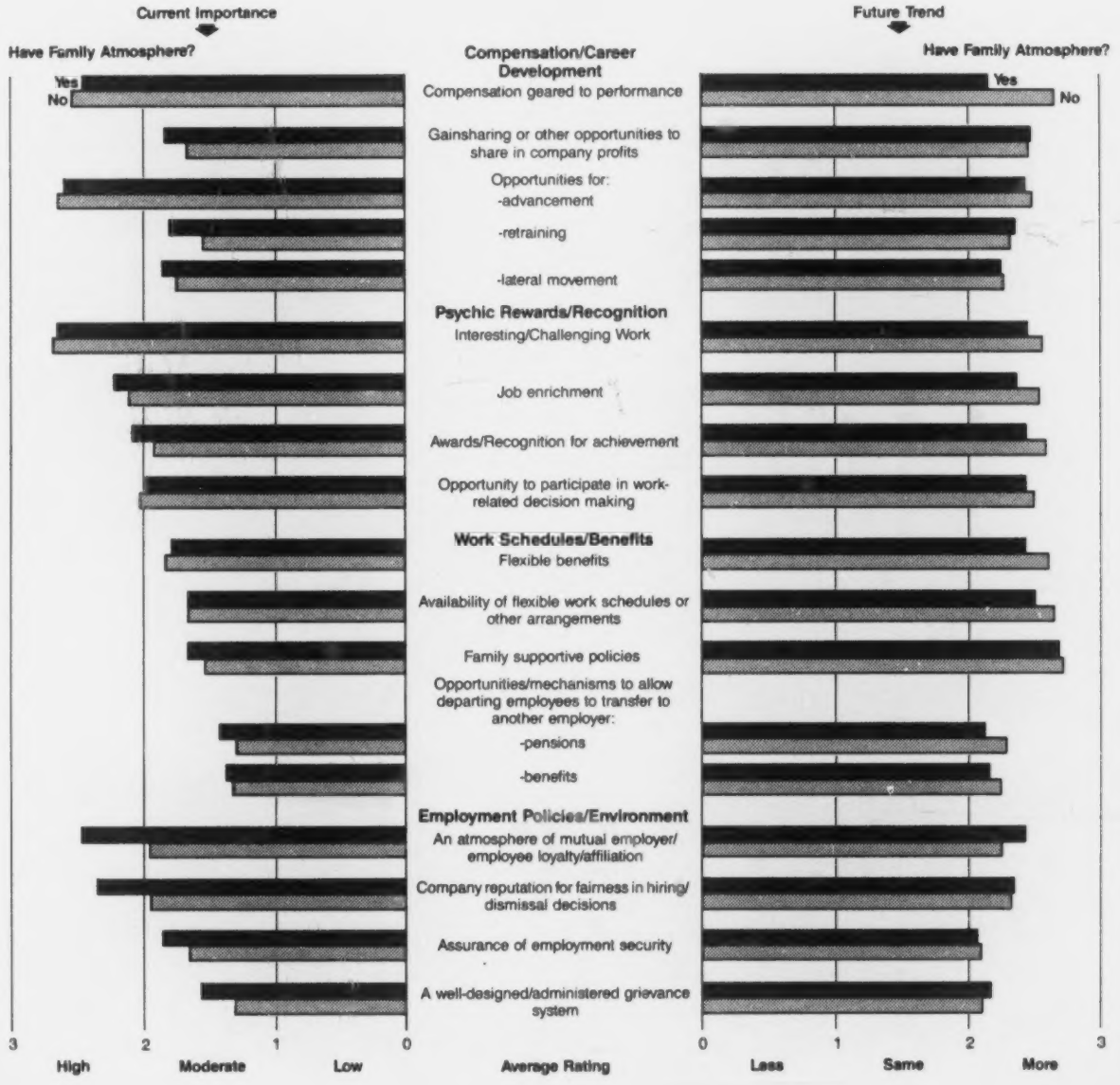


Chart 5:

Current and Future Recruitment Incentives Among Companies Which Do and Do Not Promote a Family Environment in the Workplace



"Non-family" companies appear to be preparing for a new breed of worker. These firms are more likely to see performance-based compensation, interesting/challenging work, job enrichment, awards and recognition, and flexible work practices and benefits, as gaining importance in their recruitment effort.

(2) Recognition of "market" demands in recruitment efforts. The patterns shown in Charts 3 and 4 also suggest a new emphasis on flexible hours and benefits, and such family-supportive policies as parental leave and child-care subsidies. These shifts acknowledge the changing character and needs of the 1990s workforce.

(3) A sustained and perhaps increased effort to stress the shared risk-reward aspect of the employment relationship. Management's message is that continued employment and improved compensation are tied to productivity, competitiveness and profitability. In a recent interview, General Electric's Chairman and CEO underscored the point: "... no business is a safe haven for employment unless it is winning in the marketplace. The psychological contract has to change. People at all levels have to feel the risk-reward tension...Loyalty is an affinity among people who want to grapple with the outside world and win."[14]

(4) A search for new, but more elastic and severable bonds between employer and employee. Career development appears to be a current favorite, since it promotes commitment to the firm, encourages professional growth, and enhances a worker's contribution to business efforts. It may, however, enable an employee to move on to another company if job cuts must be made.

(5) Continued corporate scrutiny of literature related to the employer/employee relationship and sensitivity to discrimination suits by both parties. Recent Supreme Court decisions shifted the burden of proof in some discrimination suits from employer to employee, but there is a counter-effort. In an article describing proposed legislation to overturn several of these Court decisions, *The New York Times* noted: "The bill is the latest example of the increasingly powerful civil rights lobby attempting to overturn a major Supreme Court decision that curtailed civil rights."[15] Moreover, older workers are frequently updated on age discrimination issues by another powerful organization, The American Association of Retired Persons.

(6) More emphasis on managing the size of the workforce. Respondents expect moderate rather than severe shortages of workers. Large percentages of firms not now using purchased services, internal employee pools, flexible work arrangements or targeted turnover practices expect to do so in the next few years. Many firms plan to map their long- and short-term employment needs.

This indication of a continued and perhaps stronger reliance on a contingent workforce may suggest another development: a growing pool of mature, highly skilled, and sophisticated self- or serially-employed workers. Such a group may be a constituency in search of a political power base. The goal will be to exert pressure to obtain portable pensions, benefits or other changes in employment policies and practices that would put contingent workers on an equal footing with core workers on the corporate payroll.

(7) *De facto* employment security for some core workers. Companies adopting participative management practices often increase their investment in employees. Workers are trained to work on teams and cross-trained in a variety of team-related skills. As more firms move in this direction, employers may be reluctant to sever employees who have adapted to the new work style and corporate culture. Such core workers are likely to be viewed as a valuable asset.

[14] See Noel Tichy and Ram Charan, "Speed, Simplicity and Self Confidence: An Interview with Jack Welch," *Harvard Business Review*, September-October, 1989.

[15] Steven A. Holmes, "Bill Would Overturn Court's Rights Decisions," *The New York Times*, February 8, 1990.

Exhibits

Exhibit 1: Excerpts of Employment Policy Statements: Job Application

Authority of Vice President, Human Resources

I certify that all statements made by me on this application are true and complete to the best of my knowledge and that I have withheld nothing that would, if disclosed, affect this application unfavorably. In consideration of my employment, I agree to conform to the rules and regulations of the Company. I understand that unless the Company agrees in *writing* otherwise, my employment can be terminated with or without cause at any time upon giving notice, at the option of either the Company or myself. I understand further that no employee or representative of the Company other than the Vice President of Human Resources has any authority to enter into any agreement for employment for any specified period of time or to make any agreement contrary to the foregoing.

Authority of Officer of Company

In consideration of my employment, I agree to conform to the policies and rules of the Company, and I acknowledge that my employment and compensation can be terminated with or without cause, and with or without notice, at any time, at the option of either the Company or myself. I understand that no representative of the Company, other than an officer of the Company, has any authority to enter into any agreement for employment for any specified period of time, or to make any agreement contrary to the foregoing.

Authority of President

I understand that employment at this Company is "at will," which means that either I or the Company can terminate the employment relationship at any time, with or without prior notice, and for any reason not prohibited by statute. All employment is continued on that basis. I understand that no supervisor, manager or executive of the Company, other than the president, has any authority to alter the foregoing.

"Work performance of continuing high standard..."

The facts set forth above in my application for employment are true and complete. I understand that false statements, misrepresentations, or omission of facts will disqualify my application, or if hired will cause my dismissal. You are hereby authorized to investigate all statements contained in this application. I further understand that employment will not be for a fixed term and will depend on work performance of a continuing high standard, and upon the continuing need and desire for my services.

Exhibit 2: Job Security

In its Employee Handbook, *Servistar Corporation encourages long-term employment:*

Job Security

Servistar Corporation encourages long-term employment. We take every opportunity to recognize and reward length of service. Our pension plan, life insurance, training seminars, length of service awards, profit sharing, etc., are just a few of the ways Servistar Corporation encourages career-minded employment.

Management also reserves its rights:

Management Rights

The Company retains the exclusive right to hire, direct and schedule the workforce; to plan, direct and control operations; to discontinue, reorganize or combine any department or branch of operations; to hire and terminate employees; to announce rules and regulations; and in all respects to carry out the ordinary and customary functions of management.

Exhibit 3: Workforce Planning Policy: Involuntary Reduction as Last Resort

From a Major Manufacturer's Personnel Manual

Summary

The policy describes the intent of manpower planning and utilization and outlines the appropriate steps designed to be taken to anticipate and manage manpower imbalances without resorting to involuntary reductions in force except as a last resort.

Policy

I. *General*

As the Company's organization and manpower requirements change, the Company's management will endeavor to anticipate and reduce manpower surpluses using involuntary reduction in force only as a last resort. Company employees are expected to be willing to learn new jobs, change career fields, and to relocate to other areas if necessary.

II. *Manpower Planning*

Each operating unit is responsible for forecasting its manpower requirements by major occupational classification for a period of 12 months. These forecasts are to be included in operating plans and are to be updated when significant changes are projected to occur. Where manpower surpluses are forecasted, strategies for their reduction are to be included in the plan update.

III. *Manpower and Workload Buffers*

Each operating unit is to establish manpower and workload buffers for each major occupational classification as a means of adjusting to changing business requirements so as to avoid involuntary reduction of regular full-time employees except as a last resort. Manpower buffers may include a combination of employee turnover, contract personnel, temporary and part-time personnel, overtime. Workload buffers include sub-contracting work out that can be brought back in-house on short notice.

IV. *Management of Manpower Surpluses*

If a manpower surplus is projected, each operating unit is expected to take appropriate cost effective actions to reduce the identified surplus and/or offset costs associated with the surplus. These actions include:

Short-Term, Temporary Surpluses

- Reduced overtime
- Hiring restrictions
- Reduced work week
- Reduced contract/temporary personnel
- Not replacing turnover

Long-Term Surpluses

- Workforce balancing and redeployment
- Retraining
- Recalling sub-contracted work
- Seeking, new, non-traditional work inside and outside the company
- Voluntary Reductions in Force
- Bridge to Retirement

Where an operating unit cannot absorb its manpower surpluses, other units are expected to work together with the affected unit to place the surplus employees. Where major redeployment issues exist, a senior management group may be appointed to direct redeployment across organizational lines.

V. *Involuntary Reductions in Force as a Last Resort*

Requests for involuntary reductions in force are to be pursued only after appropriate management actions have been taken and the identified surpluses cannot be absorbed within a reasonable time period. Proposed involuntary reductions with documentation outlining reasons for the request, shall be forwarded to the Corporate Vice President, Personnel who shall coordinate final executive approvals.

Exhibit 4: Employment Policy Statements: a Retailer

Application Form:

I certify that the information contained in this application is correct to the best of my knowledge and understand that any misstatement or omission of information is grounds for dismissal in accordance with Company policy. I authorize the references listed above to give you any and all information concerning my previous employment and any pertinent information they may have, personal or otherwise, and release all parties from all liability for any damage that may result from furnishing same to you. In consideration of my employment, I agree to conform to the rules and regulations of the Company, and my employment and compensation can be terminated with or without cause, and with or without notice, at any time, at the option of either the Company or myself. I understand that no unit manager or representative of the Company other than the President or Vice-President of the Company, has any authority to enter into any agreement for employment for any specified period of time, or to make any agreement contrary to the foregoing. In some states, the law requires that the Company have my written permission before obtaining consumer reports on me, and I hereby authorize the Company to obtain such reports.

Employee Orientation Booklet:

Employment Policy

Employment at the Company does not mean you are guaranteed a job for any specific period or until you retire. Likewise, you don't commit yourself to work at the Company for any specific length of time. Both you and the Company reserve the right to discontinue your employment with the Company at any time, for any reason, and without notice or cause. This flexibility lets you adapt to changing personal circumstances or other employment opportunities, and it allows the Company to respond to changing business conditions and effectively administer its personnel policies.

In compliance with federal immigration laws, the Company only hires persons who are and continue to be eligible to work in the United States. All Associates must document their eligibility to work.

Policies and Procedures Manual:

Contents

The contents of the Personnel Policy and Unit Procedures Manual constitute an expression of Company personnel policies and procedures. The policies and procedures included are intended as a policy guide for supervisory personnel and are merely descriptive of the Company's general approach to its administration of the personnel function. No employment rights are conferred upon employees by these Manuals and their contents should not give rise to any legitimate expectations of continued employment. The Manuals do not affect the basic relationship between the Company and its employees as is expressed, for example, in the Application for Employment, i.e., employment at the Company is considered indefinite and terminable at the will of either party, with or without notice, and with or without cause at any time. Additionally, no Company representative, other than the President or a Vice-President, has any authority to enter into any agreement for employment for any specified period of time, or to make any agreement to the contrary.

Usage

These Manuals are for the sole use of unit management in administering the personnel function. For that reason, circulation is limited to the unit staff and its delegated use to others, when necessary, should be on a restricted and supervised basis. The Manual contents are not intended as an offer of terms and conditions of employment to employees, and as a consequence employees are not employed in reliance on the Manual.

Change and Departure

While the Manuals describe certain policies and procedures and gratuitous benefits, they are subject to change from time to time and without notice to employees at the Company's sole discretion. The representations referring to causes for termination are not intended as any limitation on the Company's termination authority, and the Company is free to consider what particular circumstances might justify dismissing an employee for reasons other than those appearing. Similarly, departures from pre-termination procedures may be taken where strict adherence to procedures is deemed inappropriate and/or of predictable failure.

Exhibit 5: Employee Handbook at Best Products Company

Grievance Procedures

The Open Door Policy at Best is meant to be an information and communication channel through which you can resolve any job-related problem without fear of retaliation.

If you have a problem, you are encouraged to talk it over with your manager. Hopefully, you'll find a solution together that is prompt, impartial and satisfactory to all concerned. At your request, any discussions will be kept confidential.

If your problem, for whatever reason, is not resolved during the first discussion, you may request further assistance from the next management level, your district manager, or your regional or corporate personnel manager.

In addition to discussions with your supervisor, manager, personnel manager, district/regional staff, and/or other members of management, the Tell-Us program is available to you. Tell-Us is a confidential means of communicating a concern to the corporate office for assistance in resolving the matter.

Our objective is to find fair, timely resolutions to problems and questions. No employee will be discriminated against for using the Open Door Policy or the Tell-Us program.

Statement in Handbook Table of Contents

Regular Employee Handbook Receipt Form

This handbook is prepared for our regular full-time, part-time, and salaried employees and is intended to assist you in carrying out your job duties and to explain the policies and procedures of Best. It is not, however, an employment contract. Because of changes in the economy and in the needs of our employees and the Company, policies presented in this handbook are subject to change or elimination without prior notice, where appropriate.

Receipt Form

Regular Employee Handbook Receipt

I have received the Regular Employee Handbook dated 10-88. I will read the handbook and will adhere to the letter and spirit of these policies.

I understand that this is not an employment contract and that, because of changes in the economy and in the needs of our employees and Company, policies presented within the handbook are subject to change or elimination without prior notice, where appropriate.

Employee signature	Date
Employee name (print)	Social security number
Loc. no. Dept. no.	

Exhibit 6: Workforce Planning Policy: Core and Buffer Workers

From a Major Manufacturer's Worldwide Corporate Management Policy Manual

Policy Perspective

The Company's people are the Company's most important asset due to their knowledge, creativity, and productivity. A stable working environment is a prerequisite to developing an innovative, productive, and committed workforce. Stability can be enhanced for a "core workforce" while flexibility is increased through a "workforce buffer" as defined in this policy.

A core workforce is comprised of those employees who perform on-going work which is necessary for the continuing operation of the business. It is staffed with "full-time," "part-time" and "intern/co-op employees" as defined in this policy.

A workforce buffer is a set of staffing arrangements that allow for an expansion or contraction of available work hours without affecting the core workforce. It can be staffed with "contract personnel," a "tactical workforce," and/or by using "vendored work" arrangements as defined in this policy.

Policy

All Company operations are to be staffed with a core workforce and a workforce buffer. Changes in business activity (variability and volatility) should be managed by affecting the tactical workforce, the contract personnel, and/or the amount of vendored work, thereby minimizing the impact on the core workforce.

Policy Statements

1. Basic to this concept is the individual manager, who must anticipate changes in workload and plan the staffing of his/her organization in an appropriate way.

2. The size of the core workforce should be set so that employees in that group, who are meeting expectations or exceeding expectations, as defined in the Performance Management policy, should not be impacted by fluctuations in business conditions or workload levels.

3. Managers and employees have a responsibility to work together to ensure that each employee's skills are properly developed and upgraded over time to meet the needs of the business, so that deficiencies and obsolescence do not occur.

4. Core Workforce Employees Consist of:

   Full-time—A Company employee who is expected to work the regular number of scheduled work hours established for the business unit.
   Part-time—A Company employee who fills a position which requires less than the regular number of hours established for the business unit. The position exists to meet an on-going need of the business unit rather than a temporary fluctuation in the workload.
   Intern/Co-op—A Company employee in a program which exists to improve the quality and yield of outstanding students from targeted universities.

5. Primary Workforce Buffers Consist of:

   A. Temporary/Tactical Workforce Employees.
      Temporary employees are employed to (1) meet the variability of the workload, or (2) fill full-time positions to protect the core workforce from the volatility of business/economic cycles, and (3) have a specified start and stop date.

   B. Contract Personnel
      Contract personnel are non-Company personnel contracted to perform work for the Company under the direction of the Company. For the purposes of buffering, only that work that could be returned to the business unit and performed by the core workforce is considered a buffer.
      1. Includes individuals from temporary/employment agencies.
      2. Includes individuals (independent contractors) who are self employed and contract directly with the Company.

   C. Vendor
      Vendored work is work which is subcontracted, on-site or off-site, to another company. The people performing the work are not directly supervised by the Company. For the purposes of buffering, only that work that could be returned to the business unit and performed by the core workforce is a buffer.

Exhibit 7: Career Development

From Statement of Mission, Values and Operating Philosophy, GNA, A Division of Weyerhaeuser

Because employees are viewed as an asset to the organization, we are vitally concerned about their effectiveness and continued development. Individual development is a shared responsibility between the employee and his or her manager. However, the employee has the primary responsibility to ensure that development priorities appropriately match his or her interests, values, career aspirations and capabilities. Depending upon organization needs, GNA may periodically sponsor employees to attend outside development programs or to obtain special licenses or certificates. Although employee development from a career perspective is primarily an individual reponsibility, we recognize the important role that managers can play in providing information, advice, counseling and support. On-the-job experiences provide the richest and most lasting form of employee development. These experiences should be designed to provide continued productivity and challenge in one's current position as well as prepare a person for future growth and responsibility elsewhere within the Company.

We expect that in most situations, our managers will use our internal job visibility and posting system to provide employees with information on job opportunities. We value the opportunity to "promote from within" but at the same time recognize that in certain situations managers may choose to select an employee from outside GNA. Promotion and advancement should be based on qualifications which include competency, experience and past level of performance. Our objective as a high performance organization is continually to provide needed competency and skill levels through internal development, advancement or outside hiring.

From Employee Handbook, Cray Research

Promotions

Cray Research is committed to enhancing each of its employee's personal opportunities for career development. We will attempt to provide the opportunities and support, such as training, performance reviews, and consultation necessary for your career advancement at Cray Research.

However, your career development is primarily your own responsibility. You need to determine your own career goals, demonstrate your abilities, seek advice and counseling from your supervisor and/or human resources representative, and take advantage of training and promotion opportunities for which you are eligible and interested.

You will be considered for promotional opportunities based on skills you exhibit in your present job and additional skills and knowledge you may have. In general, promotions are determined by such qualifications as your job knowledge; the accuracy, quantity, and quality of your work; and your dependability, cooperation, versatility, initiative, judgment, creativity, and leadership abilities.

A key method for achieving promotion is to ask your supervisor's help in preparing you for greater responsibility.

Development Planning

Development planning is the on-going process of planning and execution of activity consistent with the organizational need to broaden and deepen the knowledge and skills of an individual in a given job within a life or career context. The employee, manager, and organization each has roles in employee career development.

Seven principles guide development planning.

- Development planning is a process—not an event. It is a process of implementing one's self-concept, values, and goals.
- To be effective at development planning, you have to learn about the organization.
- Cray has career paths—not ladders; no escalator image of advancement exists.
- Management and technical positions are equally valued.
- Development planning is the responsibility of the individual; the employee assumes the risk for decisions.
- Development planning fits into the performance planning process.
- Degree emphasis is incidental; knowledge and skills are paramount.

Career Development Roles:

Employee:

1. Engage in self-assessment
2. Set goal plans
3. Express expectations
4. Make use of opportunities, education, training and resources available from your manager and organization

Manager:

1. Provide forum for discussion
2. Provide support
3. Identify employee potential

4. Provide opportunity for growth consistent with individual desires and organization needs
5. Communicate formal and informal realities of organization
6. Provide exposure
7. Link employees with appropriate resources and people

Organization:

1. Provide resources for employees to understand themselves and set goals
2. Set and communicate mission, policies, goals, and objectives
3. Provide information on career planning options in organization
4. Provide training, education, and mobility opportunities
5. Reinforce and support supervisors for their role in career development

Exhibit 8: Two Views on Compensation

From Employee Handbook, Tenneco Automotive (a Division of Tenneco, Inc.)

Pay for Performance

Tenneco Automotive has designed a compensation program to attract and retain qualified people and to promote a work environment that recognizes and rewards individual achievement. The company has adopted a policy of *paying for performance*, whereby an employee receives a "merit" increase in salary commensurate with his or her level of performance.

Supervisors play a key role in salary administration since they are most familiar with the performance of their employees. Your supervisor is the primary person responsible your work performance and taking actions regarding your salary.

Your performance evaluation is a process that you and your supervisor begin by setting goals and objectives, by establishing standards for work to be performed in a given period, and by agreeing to measurements of evaluation. A continuous assessment of your performance and progress toward work goals is supplemented with coaching and counseling from your supervisor.

Merit budget and salary review

Tenneco Automotive provides compensation which is competitive with current market rates. The company participates in various surveys and studies to maintain competitive pay levels and practices.

A corporate Merit Budget for salary increases is developed each year based on local and national salary trends. Each department in the company is assigned a merit budget of its own, which the supervisor distributes among employees in the department. Corporate guidelines specify that merit dollars be awarded based on the supervisor's evaluation of each employee's performance.

In addition to merit increases received for performance on the job, promotional increases are given to employees who progress to positions of greater responsibility. Due to Tenneco Automotive's philosophy of "paying for performance," actual pay rates will vary within a job category reflecting different levels of employee performance.

From Statement of Mission, Values and Operating Philosophy, GNA, a Division of Weyerhaeuser Company

In the area of compensation, we endorse an objective of being able to attract, retain and motivate high-quality performers. We want our compensation system and the salaries we pay to be competitive in the markets in which we operate. Being competitive will allow us to attract and retain the quality of people we need.

In some segments of our business, we may encourage the development of variable pay systems where results can be directly tied to unit or individual performance. In general, however, we believe that managers can enhance the level of employee motivation and commitment through factors other than compensation. However, we periodically will review our total compensation system to ensure it is not acting as a demotivator, and that fair adminjstration of compensation becomes our standard.

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R4105-29.90F 7/90

The Conference Board

Variable Pay: New Performance Rewards

Highlights are:

- *individual incentives and merit bonuses most widely used*
- *recognition programs popular*
- *companies achieve success with profit sharing, gainsharing, individual and small-group programs*

Research Bulletin No. 246

Methodology

Information for this study was collected during June and July, 1989. Questionnaires were mailed to 2,737 U.S. companies. Those surveyed were the medium to large manufacturers (annual sales of approximately $100 million or more) and companies of comparable size in four other industry groups.

Usable information was collected from 435 companies. The participants were distributed by industry group as follows:

Manufacturing companies (185)

Financial services including commercial banks; health, life and property and casualty insurance; and other financial service companies (122)

Public Utilities including gas, electric, water and telecommunications (72)

Diversified services including computer services, health care, hotel/restaurant/entertainment, real estate and transportation (35)

Trade including wholesale and retail (21)

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Variable Pay: New Performance Rewards

by Charles Peck

Introduction

An anecdotal, unsystematic look at contemporary compensation patterns reveals a high level of interest on the part of corporations in variable pay arrangements. This assessment appears to be confirmed by two recent analyses of compensation trends.

• A study by the American Productivity Center in 1987 examining the trend in "nontraditional reward systems" over the last 25 years concludes: "More gain sharing, pay-for-knowledge, small group incentive, lump-sum bonus and two-tier plans have been adopted in the last five years than in all of the prior twenty years. Plans such as profit sharing and individual incentives have enjoyed high use and steady growth for the three decades. Even this steady growth has doubled in the last ten years."[1]

• A second report from human resources consultants, Sibson & Company, reveals that 53 percent of the prospective compensation plans from 630 employers will provide variable pay for nonexecutive employees by the end of 1990, compared with 46 percent in 1989.[2]

Why the Interest

The recent intense interest in variable compensation among firms in the United States can be attributed to a variety of factors. First, productivity improvements are essential if U.S. firms want to retain their leadership in increasingly competitive global markets. Many variable pay programs are intended to motivate and/or reward employees to improve company performance and provide concrete measures of that improvement. These programs also have the effect of lowering labor costs by basing rewards on the firm's ability to pay.

A second factor responsible for the growth of variable forms of pay is the extensive deregulation that has taken place during the last decade, particularly in the banking, utility and transportation industries. Competitive pressures in these deregulated markets, coupled with greater latitude in decision-making permitted in these environments, have resulted in a more significant role for incentives. Variable pay arrangements have proliferated in these industries.

A third reason is the concern on the part of companies over the discrepancy between the level of top executive compensation and that paid other workers. Top executives have long received bonuses and incentives based on company financial results, which allow them to directly participate with the stockholders in the prosperity of the company. The adoption of

Variable Pay Defined

For the purposes of this study, variable pay is defined as compensation, other than base wages or salaries, in which payment fluctuates according to some standard. The standard may be a preset formula as in the case of gainsharing. It may be the achievement of specific goals as in the cases of group or individual incentives. It may be the whole performance of an individual over a certain period as in the case of the merit bonus; or it may be the level of earnings of the entire organization as in the case of profit sharing.

The study is concerned with pay programs that include employees not previously eligible for variable compensation, i.e. the hourly, nonexempt salaried and exempt salaried groups.* For these employees the traditional method of pay has been wages or salaries. In particular, the study focuses on variable pay arrangements for nonexempt and exempt salaried employees for whom variable pay is a radical departure from prior practice. Compensation programs designed exclusively for the two groups of salaried employees traditionally eligible for variable compensation—top executives and sales personnel—are excluded from consideration.

*Nonexempt employees are subject to the overtime provisions of the Federal wage and hours laws. This classification includes hourly and salaried clerical employees primarily. Exempt employees are excluded from the overtime laws and are primarily salaried professional, administrative, supervisory, managerial and outside sales personnel.

[1] Carla O'Dell, *People, Performance and Pay*, Houston, Texas: American Productivity Center, 1987, p.9

[2] Press Release, Princeton, New Jersey: Sibson & Company, September 5, 1989.

variable pay plans such as profit sharing and gain sharing allow other workers to likewise have a direct share in company prosperity.

A final reason seems to be a dawning realization on the part of companies that the traditional method of providing pay increases to the salaried workforce is not accomplishing its stated goals. This method is, of course, the "merit" increase, which involves raising (or sometimes not raising) base salary in accordance with the appraisal of an individual's performance by his/her supervisor. As stated in countless company handbooks and manuals, the goal of this compensation method is to link pay increases to the employee's performance thereby providing an incentive to good performance.

Merit Pay Deconstructed

The merit increase has been a cornerstone of corporate compensation philosophy for many years in spite of an extensive body of criticism.[1] Although the trend toward variable pay does not at this point represent a full or even partial replacement for the merit increase, it is a departure from prior practice of sufficient magnitude to warrant an examination of some of the failings and unquestioned assumptions and preconceptions underlying the philosophy and practice of paying for performance with the merit increase.

Under a merit increase program, pay raises are recommended by the department head for the employees supervised. This is usually carried out within the constraints of a salary increase budget, expressed as a percentage of present salaries. The department head has the latitude, and indeed the mandate, to award or withhold pay increases reflecting the individual performance of the people in the department. However, the total of all increases cannot exceed the budgeted percentage of the departmental salaries. Often, the manager is given a salary increase guide, which is in the form of a matrix relating different factors affecting the size and timing of salary increases. In addition to level of performance, other factors that are often taken into consideration in determining an increase are the individual's position in the salary range and the length of time since the last increase.

Merit increases tend to be expensive and, contrary to their intent, not strongly related to performance. Usually everybody gets something. This so dilutes the salary increase budget that the top performer's increase is not large enough to be significant (especially after it is prorated over the number of pay periods in the year and subjected to withholding). On the other hand, the poor performer is getting more than he or she should have, which is nothing. (If the concept of pay for performance is rigorously applied, there must be zero pay for zero performance!) The result is that employees who are most dissatisified are the ones the company least wants dissatisfied, the top performers. These individuals rightly feel that they have not received pay increases appropriate for their level of performance. On the other hand, employees who are not dissatisfied are the ones who should be, the poor performers. According to merit increase philosophy the denial of a pay increase is supposed to motivate the unsatisfactory performer to improve performance or to leave the organization (and presumably go to work for a competitor—the Trojan horse concept).

The problem of the significance of pay increases has been exacerbated in recent years by relatively low merit increase budgets. As indicated in Table 1, salary increase budgets decreased almost every year from 1981 through 1987 and, for the last four years, have held at 5 percent. Unless very real performance distinctions are made, under a 5 percent salary increase budget the pay raise is going to be insignificant by anyone's standards. (A significant raise for the top performer would be 10 percent. However, to keep within the budget, the bottom performer must get 0 percent, an action many managers are not willing to take.)

The problem of significance is further heightened by the widespread use of multi-level performance appraisal systems. These systems require that the manager appraising subordinates for the purpose of merit increases assign each employee to one of four or five levels of performance. The levels range from worst to best performance, identified by a one word description, a number or a letter. For example, a five-level appraisal system might identify worst to best performance as: unsatisfactory, adequate, competent, commendable, or distinquished. Attached to each level is a verbal description of the performance characteristic of that level. The difficulty arises when the manager is called on to make distinctions between adjacent performance levels, for example, between adequate and competent or between commendable and distinquished. By analogy, the appraiser is given an instrument that is calibrated too finely for the eye to use. Often the result is that the manager gives up trying to make real performance distinctions among employees so the performance ratings (and the salary increases attached to them)

Table 1: Exempt Salary Increase Budgets, 1981-1990

Year	*Salary Increase Budget*
1981	10.6%
1982	8.8
1983	6.7
1984	6.6
1985	6.0
1986	6.0
1987	5.0
1988	5.0
1989	5.0
1990*	5.0

*Projected
Source of Data: The Conference Board.

[1] Charles Peck, *Pay & Performance: The Interaction of Compensation & Performance Appraisal*, New York, New York: The Conference Board, Research Bulletin No. 155, 1984.

cluster around the average. As a result, almost everyone receives some increase—very ineffective utilization of dollars under what is supposed to be a pay for performance system.[4]

Another problem is that merit increase programs promote devisiveness in an era when teamwork and organizational cooperation is being stressed. Employees are put in the position of competing against each other for a limited pool of merit increase dollars.

When considered from the employees' viewpoint, merit increases have never accomplished the stated purpose of linking pay to performance. Attitude surveys conducted over a substantial number of years by the firm of Sirota and Alper indicate that the majority of employees see very little correlation between their performance and their pay. This applies almost irrespective of the size of increases.

Finally, on a purely conceptual level, the employee behavior that is supposed to be affected by the merit increase has never been made explicit. It is not clear, for example, if the merit increase is intended to promote the continuation of good performance or to motivate employees to ever-better performance. Because they have never been rigorously clarified, the goals of merit increase programs tend to deteriorate into relatively meaningless statements in corporate policy manuals about "paying for performance" or "motivating through pay opportunity." In contrast to such vague statements, variable pay plans that are based on very specific measures of company, group, or individual performance become very appealing.

[4] Nathan Winstanley has long contended that a performance appraisal system should have no more than three categories—unacceptable, average, outstanding. His contention is that the manager of an employee group of any size can without difficulty pick out the truly worst and truly best performers. All others, by default, are average. See N.B. Winstanley, "How Accurate Are Performance Appraisals?" *Personnel Administrator*, August, 1980, pp.37-42.

Types and Prevalence of Variable Pay Programs

Ten types of variable pay programs are covered in this study. Recognition programs are also included. While the intent of the latter is recognition rather than reward, their frequent application of standards to group and individual performance is sufficiently similar to the pure compensation arrangements to warrant their inclusion here.

Most attention is given to the programs designed for or including salaried employees who are not executives or sales personnel and thus have not been eligible for the traditional incentive or bonus plans. Because of this emphasis, variable pay plans exclusively for top management and the sales force are not covered. Also excluded are those plans whose purpose is to provide an employee benefit rather than compensation. This qualification excludes deferred profit sharing, where the intent is the accumulation of post-retirement income, and stock ownership plans such as ESOPs. Of the ten compensation arrangements, profit sharing, gainsharing, individual incentives, and small group incentives involve formulas or preestablished, largely objective, standards and are dealt with in separate sections. The others are examined jointly in the section titled "Other Variable Pay and Recognition Programs." See box, page 6, for definitions.

A distinction should be drawn between the two terms, incentive and bonus, for the purposes of this study. Although often used interchangeably in the business community, an incentive is actually payment tied to specific goal(s) established and communicated to participants before the start of the performance period. At the close of the period, payment is made or withheld on the basis of goal achievement. Further refinement may involve the appraisal of individual or group contributions to the achievement of the goal. The emphasis is on specific actions performed in pursuit of the goal.

By contrast, a bonus is payment based on an after-the-fact assessment of events when no specific actions were called for. The clearest illustration of the incentive-bonus distinction is the difference between an individual incentive plan where the employee knows in advance what specific actions will result in payment and an organization-wide bonus where an after-the-fact determination is made that a year has been successful and, therefore, a bonus will be paid to employees.

Other Programs

Survey participants were asked to report any other programs in their organizations similar to, but not included in, the definitions. These other programs are mostly unique to the particular companies having them. The exception is award for suggestions, which is subsumed in this study under recognition programs. Those reported included the following programs:

- Exception performance unit award
- Additional merit increase budget for top performers
- Award for suggestions
- A program called by the acronym "PRAIS" that provides recognition for individual accomplishment and success
- Award to employees who make job referrals
- Bonus paid for professional accreditation
- Combination of employee benefit with incentive goal where the company 401(k) contribution is tied to an annual earnings objective.

Definitions of Programs

Current Profit Sharing: Uniform payment to all or most employees based on organizational profitability.

Exception Restricted Stock/Stock Option: Grants of stock subject to restrictions or stock option grants to employees ordinarily not eligible for such awards.

Gainsharing: Plans designed to measure the productivity of a unit or organization and to share the value of productivity gains uniformly with all participating employees. Includes Scanlon, Rucker, Improshare and customized plans.

Individual Incentive: Payment based on measured individual performance, for example, piece work systems.

Instant Incentive: Special payment to an individual for a noteworthy achievement, for example, devising a cost saving measure or an improved procedure.

Merit Bonus: Payment based on individual performance given in lieu of or in addition to a merit increase and never added to base salary.

Organization-wide Bonus: Uniform payment to all or most employees, usually at fiscal year end.

Pay-for-Knowledge: Pay rate based on the number of skills or jobs mastered.

Recognition Programs: Recognition for individual or group performance consisting of symbolic awards, status awards, cash awards or awards with cash value such as merchandise or travel.

Small Group Incentive: Uniform award to all members of a group, based on their achievement of a predetermined objective.

Two-tier Pay: New hires (second tier) are paid at a lower rate than previously hired employees.

Table 2: Prevalence of Variable Pay and Recognition Programs

N=435

	In Effect		*Under Consideration*	
Program	*Number*	*Percent*	*Number*	*Percent*
Recognition	232	53%	28	6%
Individual incentive	154	35	16	4
Merit bonus	138	32	34	8
Exception restricted stock/ stock option	128	29	15	4
Instant incentive	112	26	22	5
Current profit sharing	81	19	26	6
Organization-wide bonus	58	13	23	5
Gainsharing	57	13	61	14
Small group incentive	54	12	27	6
Pay-for-knowledge	43	10	19	4
Two-tier pay	34	8	3	1

Note: Data reflect multiple responses from the companies surveyed. A program is considered in effect or under consideration if it is being used or considered in any unit of a company.

Prevalence of Variable Pay Programs

The prevalence of the variable pay and recognition programs surveyed, as presented in Table 2, suggests that flexibility is an important factor in frequency of use. For example, several of the most common programs, recognition, merit bonus, exception restricted stock/stock option, and instant incentive, can be applied in a variety of situations to a variety of employees. Some of the less widely-used devices, on the other hand, including profit sharing, gainsharing, two-tier pay, pay-for-knowledge, and, to an extent, small group incentives, are relatively inflexible. A rigid formula or standard must be devised and uniformly applied. Further, there is little option in selecting the employees to be included. In the first two instances the programs are applied throughout the company or unit. With the other three, only very specific employee classifications are covered.

Individual incentives, the second most frequently reported programs, appear in a wide variety of forms across the organization. As will be discussed in the section on individual incentives, these plans are applicable to virtually all segments of the work force, ranging from piece work arrangements for production workers to incentives based on individual contribution to profitability for managers.

The remaining device, organization-wide bonus, is a carryover from the old Christmas bonus and is gradually being replaced by more specific incentives.

Current Profit Sharing

Current profit sharing plans are in effect at 81 (19 percent) of the 435 surveyed companies. The prevalence of these arrangements by industry category is shown in Table 3. There is a tradition of profit sharing among a significant minority of manufacturing companies. In the financial services sector, banks are also traditional users of profit sharing. In fact, during the era of substantial regulation, profit sharing was often the only form of compensation other than salaries used by banks.

Profit Sharing Formulas

Information provided by 64 of the 81 survey participants with profit sharing shows that profit sharing formulas fall into two general categories: those that are applied to the "first dollar" of profits and those that establish a profitability threshold which must be achieved before dollars begin to accumulate in the pool. A description of the 64 formulas studied follows.

First Dollar Formulas

1. **Percent of Profits** (25 plans): A specified percent of either pre or post tax annual profits goes into a pool for distribution to eligible employees. The percent of profits to be shared is either fixed by the terms of the plan or is determined each year, usually by the Board of Directors.

2. **Percent of Profits Plus Achievement of Stated Objectives** (nine plans): In these formulas, the payment from the pool is weighted by the degree of achievement of specified financial goals. For example, an insurance company takes into account factors relating to new sales, expense control and surplus enhancement.

3. **Graduated Formula** (eight plans): Under these formulas, funding is triggered as progressive profitability levels are reached. For example, one formula provides for funding at a decreasing rate over two levels of profit performance. Specifically, 8 percent of the first 20 million dollars of profits goes into the fund and 5 percent of profits over 20 million.

Table 3: Prevalence of Current Profit Sharing in Surveyed Firms

Industry Group	Total Number of Organizations	Number with Profit Sharing	Percent with Profit Sharing
Manufacturing	185	46	25%
Financial services	122	23	19
Diversified services	35	5	14
Trade	21	3	14
Utilities	72	4	6
Totals:	435	81	19%

Threshold Formulas

1. **Percent of Profits After a Fixed Threshold** (ten plans): In formulas of this type, a certain profitability threshold must be reached before profit sharing dollars begin to accumulate. This method usually reflects the view that provision must be made for a return to shareholders before profits are distributed to employees. For example, one formula states that the profit sharing fund will consist of "adjusted pre-tax profits with a deduction of a percentage of shareholders' equity." Another specifies that the pool only begins to accumulate when profits are in excess of 3 percent of sales.

2. **Percent of Profits After a Moving Threshold** (six plans): These formulas require annual adjustment of the threshold to create a moving target. In order for funding to begin, the prior year's performance must be bettered. For example, one formula provides for payment of 2 percent of participants' compensation if a specified level of profits over the previous year is reached. A second formula specifies that funding will begin only after the achievement of a 5 percent increase in operating income over the prior year.

3. **Graduated Amount Above a Fixed** (five plans) **or Moving** (one plan) **Threshold:** These formulas are a variation on graduated first dollar formulas. In these cases, a certain threshold must be reached before the successive levels of performance can begin to be achieved. For example, in one plan an annual financial goal must be at least partially achieved before any payment can occur. Payment starts at 1 percent of compensation at 80 percent of goal achievement and can continue up to a maximum of 7 percent of compensation at 120 percent of goal achievement.

Employee Groups Included

The majority of profit sharing plans, 45, or 58 percent of the 78 responses to this question, cover all employees. Twelve cover all but executives. In this instance profit sharing eligibility ends at the point where eligibility for the annual executive incentive plan begins. The executive group is excluded from profit sharing to prevent "double dipping." The exclusions in the remaining 21 plans cover a variety of practices with the most common being the exclusion of hourly or unionized employees (eight plans).

Annual Payment and Relationship to Base Pay

The most recent payment from profit sharing plans was reported by 75 survey participants. Expressed as a percent of wages and salaries, the median payment is 6 percent; the middle fifty percent ranges from 3 to 9 percent. The median profit sharing payment is slightly higher than the average merit increase, which has remained at 5 percent for several years.

There are two different approaches to the relationship of base wages and salaries to variable compensation. In the first, base wages and salaries are set at the level desired by the company in relation to the compensation paid by other companies, and in consideration of business and internal conditions. In these cases, the profit sharing payment is strictly additional compensation on top of competitive base pay. In the second approach, base pay is deliberately set below the company's desired competitive position, with profit sharing providing the opportunity to make up or exceed the difference between actual and competitive pay. Thus, two opposed pay philosophies are used: on the one hand, profit sharing is viewed as extra compensation on top of fixed wage or salary and, on the other, profit sharing is considered "pay at risk." It fluctuates according to the fortunes of the corporation.

Among the responding companies, only eight (11 percent) set base pay below competitive position, using one of two different methods. The first sets base pay at a certain point below competitive level. For example, one company sets base pay at 5 percent below the desired competitive position. The other method is to determine the level of total compensation in comparison with the outside market. The company then decides on the desired proportion to be fixed in the form of wages and salaries and the proportion to be "at risk" in the form of variable compensation, including profit sharing. One company, for example, targets its desired total compensation position at the 75th percentile of the competitive rate. Depending on the particular job or organization level, base pay is then set anywhere from the 50th percentile (maximum risk) to the 75th percentile (no risk).

Table 4: Objectives of Current Profit Sharing Plans

Objective	*Number of Times Mentioned*	*Percent of Organizations Mentioning N = 81*
Enable employees to share in the organization's success	28	35%
Motivate employees to improve profits	17	21
Promote teamwork	15	19
Motivate employees to act in the company's best interest	13	16
Improve productivity	12	15
Attract and retain employees	9	11
Motivate employees to meet financial goals	9	11
Increase and promote employee goodwill and morale	6	7
Convert fixed pay to variable pay by putting pay at risk	6	7
Meet competition	2	3
Increase compensation	2	3
Improve quality	2	3

Note: Respondents reported multiple objectives.

Objectives of Plans

As indicated in Table 4, the objectives most frequently mentioned stress company success in different ways. For example, three of the most frequently mentioned objectives (the first, second and fourth in Table 4) are essentially the same: the success of the company. However, the thrust of the first, "to enable employees to share in the company's success," is phrased in "bonus" terms. That is, after the fact of the company's success there is a reward for employees. Conversely, the second and fourth use the word "motivate." This is "incentive" terminology. That is, the emphasis is on action by the employees to bring about the company's success.

Other objectives mentioned a single time were: relate labor costs to profitability; replace a Christmas bonus; enable employees to understand the free enterprise system; convey the idea that profits are not guaranteed; and avoid unionization.

Gainsharing

Gainsharing plans are incentive plans that reward participants for increased productivity and/or cost savings on the basis of a predetermined formula. These plans are most often found in manufacturing environments, particularly in smaller companies or manufacturing units of larger ones.

According to a 1988 study by the Bureau of National Affairs, these plans usually involve three elements: "(1) a management philosophy emphasizing employee participation, potential and ingenuity; (2) a structural involvement system for gathering and implementing employee suggestions on ways to increase productivity; and (3) a formula to share the benefits of productivity generated savings between workers and the employer."[1]

Looked at this way, the gainsharing plan is more an expression and enhancement of a particular organizational culture than it is a compensation arrangement. Rather than the payment being the primary focus, it is almost a by-product of the proper functioning of the organization's culture.

Gainsharing plans were in effect at 57 (13 percent) of the 435 surveyed organizations (see Table 5).

Types of Gainsharing

Four types of gainsharing are in current use. Three of these are model plans that can be installed in a variety of companies, with some modifications to fit particular situations. These are the Improshare, Rucker and Scanlon plans. Each uses a different formula to measure the productivity of an organization or unit. The Improshare plan establishes a measure of work hours saved for units produced in comparison with the work hours required to produce an equal number of units during a base period. The Scanlon plan establishes a base ratio related to the experience of the past several years. It then measures the labor costs of the unit against sales and applies the base ratio to determine the bonus payable. The Rucker plan uses a calculation based on a historic relationship between labor and value added, with a bonus generated in any month where actual labor costs are less than a standard percent of production value.

Both the Rucker and Scanlon plans were developed in the Depression era of the 1930's. The Improshare plan was first used in 1974. The need for increased productivity (the Scanlon plan was in fact devised to save a failing company) caused the gainsharing concept to develop beyond the original individual piece work arrangements. At the beginning of the 1980's, the model plans were dominant, and there were very few other arrangements.

Now, the great majority of plans, as indicated in Table 6, fall into the fourth group, "customized arrangements." These are plans designed for specific situations either by the organization itself or with the aid of outside consultants. The current emphasis by companies on the requirements of their unique circumstances no doubt accounts for the prevalence of these plans. The definitions become somewhat muddied, however, because respondents would categorize a "modified" Improshare, Rucker or Scanlon plan as a customized arrangement.

Gainsharing Formulas

Distinct variations occur in the types of gainsharing formulas employed by the different industry groups. As indicated in Table 5, most gainsharing plans are found in manufacturing operations because quantitative production levels can be used to establish measures of productivity in these environments.

Twenty-four respondents in the manufacturing group provided information on their gainsharing formulas. Eleven have formulas relating to productivity improvement over a base. Five formulas relate to productivity improvement over a base but factored in other elements such as lost time and safety record. Not surprisingly, a glass manufacturing company also factors in shipping reliability. Five other formulas

[1] *Changing Pay Practices: A BNA Special Report*, Washington, D.C.: The Bureau of National Affairs, 1988, p. 68.

Table 5: Prevalence of Gainsharing

Industry Group	Total Number of Organizations	Number with Gainsharing	Percent with Gainsharing
Manufacturing	185	37	20%
Utilities	72	11	15
Trade	21	2	10
Diversified services	35	3	9
Financial services	122	4	3
Totals:	435	57	13%

Table 6: Types of Gainsharing Plans

Plan	Number of Organizations
Customized	46
Improshare	6
Scanlon	3
Rucker	1
Total:	56

integrated a variety of objectives, defined generally as a combination of financial achievement, cost control and qualitative standards. The remaining three plans have formulas that were stated in terms of cost reduction, specifically cost savings in the incentive period measured against cost levels in a base period.

Public utilities were the second largest user of gainsharing plans among the survey group. Unlike manufacturers, none of the formulas for which information was provided are based on production volume. The formulas are all of the same type: customized formulas in which the payment relates to the achievement of multiple goals. These goals are a combination of specific financial objectives and more qualitative, yet still measurable, ones. Examples of goals often used in these plans are: sales, customer satisfaction, no rate increase, safety record and reduction of lost time. These goals represent a combination of "positive" achievements, such as increased sales, and "negative" achievements, such as an absence of accidents.

Financial services was the only other industry for which some formula information was given. Specifically, two insurance companies furnished descriptions of their gainsharing formulas. One company establishes production goals relating primarily to the number of policies issued, with factors for accuracy and timeliness. In the other firm, unspecified standards of departmental productivity are established, and incentive payments begin after an improvement of at least 8 percent over a base period.

Employee Groups Included

As indicated in Table 7, the majority of gainsharing plans include all employees except executives. As is the case with profit sharing, the exclusion is intended to eliminate "double dipping" by executives eligible for annual executive incentive plans.

Table 7: Employee Groups Included in Gainsharing Plans

Employee Group	Number of Organizations	Percent of Organizations
All but executives	28	54%
Hourly only	13	25
All employees	6	12
Other	5	10
Totals:	52	100%

Table 8: Activites to Support and Administer Gainsharing

Activity	Number of Responses	Percent of Organizations Using Activity N=57
Periodic meetings	41	72%
Problem solving teams	34	60
Newsletter	31	54
Training program	31	54
Steering committee	29	51
Suggestion system	27	47
Auditing	19	33
Other	6	11

Note: Respondents reported multiple activities.

Table 9: Objectives of Gainsharing Plans

Objective	Number of Times Mentioned	Percent of Organizations Mentioning N=57
Improve productivity	32	56%
Promote teamwork	17	30
Promote employee involvement	15	26
Control or lower costs	11	19
Improve quality	10	18
Eliminate individual piece work arrangements	5	9
Improve corporate performance generally	5	9
Provide recognition	4	7
Link pay for performance with pay at risk	3	5
Provide opportunity to earn extra pay	3	5
Improve morale	3	5
Improve customer service	3	5
Avoid unionization	2	4
Increase employee understanding of the business	2	4
Change organization culture	2	4

Note: Respondents reported multiple objectives.

Programs to Support and Administer Gainsharing

Since the success of gainsharing depends on the degree of employee participation, companies often institute a number of programs to involve employees in the process.

Table 8 lists in order of frequency of occurrence a number of activities often associated with gainsharing. Most gainsharing companies report several support programs. These activities indicate the importance they attach to ongoing communication and, especially, efforts to draw employees into the operation of the plan and inculcate them with a sense of plan ownership. Without such involvement the sought for productivity gains are most unlikely to occur.

Annual Payment and Relationship to Base Pay

The most recent annual payment from gainsharing plans was reported by 40 participants. Expressed as a percent of wages and salaries, the median payment is 3 percent. The middle 50 percent ranges from 2 to 8 percent. The median payment is substantially less than the average 5 percent merit increase; such a level of payment would seem to seriously undermine the incentive impact of these plans.

Forty-nine of 57 companies set base wages and salaries at competitive levels, considering the gainsharing payment as strictly extra compensation. The remaining eight set base pay at less than competitive levels with the expectation that the gainsharing payment could restore or exceed the offset. The overwhelming preference for the first approach can probably be explained by the relatively low payout that typically occurs with gainsharing arrangements.

Objectives of Plans

As evident in Table 9, productivity improvement is the most frequently mentioned objective of productivity based plans. However, it is interesting to note that the second and third most frequently mentioned objectives are "cultural" rather than performance objectives. Citing the promotion of teamwork and employee involvement, companies again emphasize the importance of the cultural aspects of gainsharing. Other objectives, not shown in the table but mentioned a single time, were: on-time shipments, safety, lower turnover, improved company compensation position, and increased plant profitability.

Individual Incentives

Individual incentives were reported by 154 (35 percent) of the 435 participating organizations. The prevalence by industry group appears in Table 10. Individual incentives are used by a significant minority of companies in all industry groups except utilities. The relatively low use among utilities is probably due to their history of regulation, which limited workforce autonomy and did not foster the growth of incentive plans.

The individual incentive plans included are, according to the definition employed, those plans in which the payment of compensation is tied to some standard of individual performance that is communicated before the beginning of the performance period. Not included are incentive plans exclusively for top executives, sales incentive plans, merit increases or merit bonuses.

Standards Used

The individual incentive plans studied fall roughly into three categories, depending on the incentive criteria used and the type of employees to which these standards are applied. The first group includes plans that set production standards for hourly and/or nonexempt salaried employees. Of the 82 respondents providing information on their incentive standards, the 30 in this category include 14 banks, 15 manufacturers and one retail trade operation.

Among the banks, these incentive plans cover nonexempt employees engaged in processing items, for example, encoding checks. Individual standards are set for a certain number of items to be processed per hour with a factor for errors. In more general terms, the standard is productivity and quality.

Among the manufacturers, the majority of plans are tied to "piece work" in plant production situations. They are based on an analysis that yields a matrix of productivity and quality requirements within a time standard. For example, one respondent defines his firm's incentive criteria as: "Number of pieces produced based on volume and standards (including time) established for the particular operation being performed."

The second category of individual incentive plans can be characterized as "top executive type plans," because they are structured in a manner very similar to those used exclusively for top executives. However, the 30 plans in this category include employees significantly below the top executive level. The respondents were evenly distributed among the industry groups surveyed. Plans of this type set criteria relating to the corporation as a whole, the corporation and individual business units, or solely for individual units. These plans often establish tiers of corporate and/or unit performance and individual performance. For example, a public utility's plan, covering all salaried employees including executives, describes

Table 10: Prevalence of Individual Incentives

Industry Group	Total Number of Organizations	Number with Individual Incentives	Percent with Individual Incentives
Financial services	122	59	48%
Trade	21	10	48
Diversified services	35	15	43
Manufacturing	185	56	30
Utilities	72	14	19
Totals:	435	154	35%

Table 11: Most Recent Individual Incentive Payments (As percent of wages/salaries) N=65

Type of Individual Incentive Plan	Number of Organizations	Most Recent Typical Payment: First Quartile	Median	Third Quartile
Top executive type	23	6%	10%	15%
Department/unit type	19	5	8	12
Production type	23	10	20	30
		Most Recent Minimum Payment		
Top executive type	16	2%	5%	7%
Department/unit type	12	1	4	8
Production type		INSUFFICIENT DATA		
		Most Recent Maximum Payment		
Top executive type	23	13%	29%	60%
Department/unit type	19	10	20	60
Production type	23	32	63	110

its incentive standard as the creation of an "award pool based on achievement of corporate and organizational goals with individual incentive a percent of that pool based on individual achievement [of] pre-set objectives." A number of plans specify a three-tiered standard consisting of corporate performance, unit performance and individual performance.

The last category consists of plans designed for employees below the executive level that base the incentive payment on individual contributions to the success of a particular unit or department. Twenty-two plans are of this type. Some set specific goals relating to individual operations within a department. For example, in a computer system marketing department, the standards employed include: (1) Collections for accounts receivable employees; (2) Staffing for human resource managers; (3) Customer satisfaction for service managers; and (4) Meeting time tables for project managers.

Other plans in this category call for a less formal evaluation of individual contributions to standards of department or unit performance. For example, in the branch banking units of a commercial bank the incentive standards involve the individual's contribution to growth in deposits, loan growth and expense control.

Employee Groups Included

Among the 98 responding companies, the employee groups covered in their individual incentive plans reflected the type of plan in use, as described in the preceding paragraphs. On this basis, 36 include hourly and nonexempt salaried only; 37 include all employees, all but hourly, or exempt and executive only; the remaining 25 cover, for the most part, all but executives.

Typical Payments and Relationship to Base Pay

Very little difference in the size of payments shows up between the top executive type of plan and the department/unit type. The top executive plans pay slightly more, probably because of the inclusion of top executives, who are believed to have a greater impact on corporate objectives than other employees and thus get a larger percentage of salary as incentive payment when these objectives are achieved. The production type of plan, where piece work arrangements predominate, tends to operate very much like a commission sales plan. A direct relationship exists between the number of items produced or processed and the payment. Therefore, considerable incentive opportunity, or "swing," is available in these arrangements, a situation that is dramatically apparent in the maximum payments reported.

Of the 101 organizations answering this question, 87 pay competitive wages and salaries and regard incentive payments as additional compensation. Fourteen set base pay below competitive levels with the understanding that incentive compensation could make up or exceed the difference. Not surprisingly,

this latter approach is used most frequently in organizations with production type plans where ample opportunity exists for relatively large incentive payments.

Objectives of Plans

Unlike the other types of pay plans analyzed, objectives of individual incentive plans tend to be general statements of the incentive standards employed and, as such, can be categorized according to the three types of plans.

Organizations with top executive type plans, using company performance, unit performance or invididual contribution as standards, typically state the plan's objective as "improving company financial performance," "tying payments to individual contribution," or similarly general terms.

The objectives of nonexempt production type plans often consist of a restatement of the standards governing units produced or processed, offset by errors under a time factor, with the conclusion that achieving these standards will accomplish the objectives of increased productivity, increased quality and decreased absenteeism.

The department/unit type plans make similar restatements of standards in the form of objectives. For example, a utility company with an incentive plan for nonexempt and exempt salaried employees (excluding executives) uses criteria pertaining to revenue generation, expense control, management of external affairs, and management of human resources. These criteria translate into the objectives to: improve company financial performance, improve company service objectives, and improve team effort among work units.

Small Group Incentives

Small group incentives (SGIs) are used by 54 (12 percent) of the 435 participating organizations. The prevalence by industry group is shown in Table 12. They can be classified as either permanent or "ad hoc." In permanent plans, the covered group is continually under the incentive system, as in the case of plans based on productivity or quality standards. "Ad hoc" plans are established for a specific project and do not extend beyond the life of that project. For example, a research group working on a particular undertaking may be covered by a small group incentive relating to the successful completion of that project. Once the assignment is finished, the plan terminates.

Criteria Used to Determine Award

As shown in Table 13, the criteria used to determine incentive awards are typically based on financial performance, measures of hours, and/or production objectives . The "other" responses, referring mostly to "ad hoc" small group incentives, are statements covering the achievement of specific tasks. For example, a manufacturing company calls for "on time completion of an assigned project within budgeted cost limits." A commercial bank's criteria were factors relating to the conversion of an acquisition.

The criteria used varied somewhat according to industry. In the financial services sector, for example, the majority (74 percent) use financial performance criteria. In manufacturing, on the other hand, the most common criteria are production objectives (46 percent). The types of employees covered also influence the criteria used. Those including exempt and executive employees tend more toward the use of financial performance standards and those for hourly and nonexempt salaried more toward production objectives. (See employee groups covered, below.)

Table 12: Prevalence of Small Group Incentives (SGIs)

Industry Group	*Total Number of Organizations*	*Number with SGIs*	*Percent with SGIs*
Trade	21	4	19%
Financial services	122	19	16
Manufacturing	185	24	13
Diversified services	35	3	9
Utilities	72	4%	6
Totals:	435	54	12%

Table 13: Small Group Incentive Criteria

Criteria	*Number of Times Mentioned*	*Percent of Organizations Mentioning N = 54*
Financial performance	31	57%
Production objectives	21	39
Other	13	24
Measures of hours	4	7

Note: Respondents reported multiple criteria.

Employee Groups Covered

The most frequent participants in SGIs are exempt employees. Twelve of the 41 responding companies establish SGIs only for exempt employees. Next in frequency are ten organizations whose SGIs cover all employees except executives. In nine organizations, only exempts and executives are eligible. In this group of plans, the distinction between a small group incentive and a top executive incentive plan that has been extended to lower level employees becomes problematic. In these ambiguous cases, the company's decision to categorize their plan as an SGI rather than an executive incentive was honored. In six organizations, only salaried employees are eligible, and four others cover only hourly or only nonexempt salaried personnel respectively. These last four plans are mostly productivity arrangements.

Size of Groups in SGIs

The median group among 50 SGIs is ten employees. The middle 50 percent range is from seven to 20 employees. The size of the typical SGI group varies little among the different industries, with the exception of financial services where the third quartile is approximately twice that of the third quartile for the entire sample. The general wisdom is that groups should not include more than 20 employees, since cohesion and synergy could otherwise be lost. When larger groups are formed, it usually involves an activity which crosses functional or departmental lines, for example, customer service. This approach is most often employed by service organizations, which explains why the larger groups are found among the financial services companies.

Annual Payment and Relationship to Base Pay

The respondents reported the most recent typical annual payment as a percent of base wages or salaries. Table 14 shows these payments in the total responding group and in manufacturing and financial services. There was insufficient data to report on the other industry groups separately.

Table 14: Most Recent Typical Annual SGI Payment (As percent of wages/salaries)

Industry Group	*Number of Organizations*	*First Quartile*	*Median*	*Third Quartile*
All	47	5%	10%	20%
Manufacturing	21	5	12	24
Financial services	16	4	7	15

The majority of companies, 45 of the 53 answering this question, set base wages and salaries at competitive levels with the SGI payment representing additional compensation. Eight offset base pay in the same manner and for the same reasons as discussed previously in connection with other types of variable pay plans.

Objectives of Plans

Table 15 lists the objectives of SGIs according to the frequency with which they were mentioned. Other objectives mentioned a single time include: focus attention on short-term goals; change the organization's culture; achieve specific project goals; focus effort on value added work and, interestingly enough in view of the number of times teamwork was mentioned, to promote competitiveness among the branches in a banking operation.

Table 15: Objectives of Small Group Incentives

Objective	*Number of Times Mentioned*	*Percent of Organizations Mentioning N=54*
Promote teamwork	17	32%
Achieve financial goals	12	22
Increase productivity	8	15
Link pay to performance	7	13
Cost savings	5	9
Improve quality	5	9
Increase sales or profits	4	7
Promote specific behaviors	2	4
Improve customer service	2	4
Reward effort	2	4
Decrease turnover	2	4

Note: Respondents reported multiple objectives.

Other Variable Pay and Recognition Programs

Unlike the programs described in previous sections, the remaining variable pay arrangements are usually not based on formulas or specific performance criteria or goals. In fact, in some of these arrangements it is the exceptional action rather than the action in accordance with preset standards that merits the incentive award. The instant incentive, also called the "lightning strikes" incentive, is intended specifically for the purpose of recognizing and rewarding exceptional contribution by employees ordinarily not eligible for incentive compensation. Similarly, exception grants of restricted stock or stock options are, by definition, made to employees not ordinarily eligible for such plans. Such recipients have merited an award for some special achievement or, more commonly, are high potential employees whom the company wishes to recognize, through a top executive type award, as potential members of senior management.

The merit bonus, in contrast with the more precisely measured forms of variable pay, does not escape from the vagaries inherent in the performance appraisal process used for the regular merit increase. The only difference from the traditional merit increase is that the merit bonus is never added to base salary and must be reearned each year. Whether employees are eligible often depends on their position in the salary range. For example, the merit bonus may be available only to employees at the midpoint and above, at the third quartile and above, or just for "red circle rates," that is, for employees paid above the maximum of the salary range. Because it is never made a part of base salary, the merit bonus is understandably not popular with employees; its justification is cost savings. Merit bonuses came into use during the economic downturn of the early 1980s. They became the salaried version of the collectively bargained lump-sum payment, which a number of companies made in lieu of wage increases.

The organization-wide bonus is found mostly in smaller companies. It is the descendent of the old Christmas bonus and the even older Christmas turkey. It is a bonus rather than an incentive insofar as an after-the-fact uniform payment is made to all (or most) employees on the basis of company financial performance in a particular year.

The last two programs covered, pay-for-knowledge and two-tier pay, are primarily arrangements for hourly employees. The first program bases pay rates on the number of jobs for which an employee has cross-training rather than on a single occupation. The second concerns new hires coming in at a lower pay rate than employees previously hired in the same occupation, a strategy intended to bring down wage rates that have become inflated.

Table 16 shows the prevalence of the seven programs among the survey respondents.

Size of Payments

Table 17 shows the amount of compensation, as a percent of wages or salaries, paid from five types of variable pay arrangements for the entire group surveyed and for two industries, manufacturing and financial services, for which there was sufficient data for separate analyses. There is comparatively little variation in merit bonus, organization-wide bonus and instant incentive payments among different industry groups. Exception restricted stock and stock option grants vary widely as exceptional practices, particularly on the high side, as can be seen by looking at the deltas between the median and third quartiles.

Table 16: Prevalence of Other Variable Pay Programs

	Industry Groups											
Program	*All Industries N=435*		*Manufacturing N=185*		*Financial Services N=122*		*Utilities N=72*		*Diversified Services N=35*		*Trade N=21*	
	No.	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
Merit bonus	138	32%	53	29%	39	32%	25	35%	16	46%	5	24%
Instant incentive	112	26	49	27	42	34	13	18	7	20	1	5
Exception stock option	81	19	44	24	12	10	6	8	8	23	11	52
Organization-wide bonus	58	13	29	16	19	16	3	4	2	6	5	24
Exception restricted stock	47	11	24	13	7	6	7	10	7	20	2	10
Pay-for-knowledge	43	10	26	14	7	6	2	3	5	14	3	14
Two-tier pay	34	8	25	14	—	—	6	8	3	9	—	—

Table 17: Most Recent Annual Payment (or Grant) from Other Variable Pay Programs (As percent of wages/salaries)

	All Industries				Manufacturing				Financial Services			
Program	*No.*	*First Quartile*	*Median*	*Third Quartile*	*No.*	*First Quartile*	*Median*	*Third Quartile*	*No.*	*First Quartile*	*Median*	*Third Quartile*
Exception restricted stock	17	10%	30%	88%	12	10%	20%	88%	INSUFFICIENT DATA			
Exception stock option	33	9	15	50	26	7	10	20	6	9%	10%	63%
Merit bonus	71	4	5	8	40	3	5	6	22	4	5	10
Organization-wide bonus	46	4	5	15	20	5	8	20	14	4	5	10
Instant incentive	83	2	3	9	42	2	3	9	36	1	4	6

Table 18: Prevalence of Recognition Programs

Industry Group	*Total Number of Organizations*	*Number with Recognition Programs*	*Percent with Recognition Programs*
Financial services	122	74	61%
Manufacturing	185	101	55
Utilities	72	37	51
Trade	21	8	38
Diversified services	35	12	34
Totals:	435	232	53%

Recognition Programs

Recognition programs are very widely used in the surveyed companies, as demonstrated by the responses in Table 18. This extensive use is probably accounted for by the variety of practices qualifying as "recognition." Such awards range from giving pins or plaques for attendance to programs involving relatively detailed standards and substantial awards.

While compensation devices such as the instant incentive or exception restricted stock and stock option may involve recognition, their primary intent is to provide compensation. Conversely, while recognition programs may involve cash or cash equivalents, the primary purpose is recognition and not compensation. Recognition may be given for individual achievement such as perfect attendance or for a number of factors constituting an "employee of the month" or "department of the month."

Basic Features and Success

Tables 19 and 20 show the bases for awards and the form of awards under recognition programs. The "other" responses in Table 19 cover a wide variety of situations. A number pertain to length of service and suggestion awards. Other bases for awards include: customer service, quality, on-time project completion, and even "spectacular" achievement. In general, the bases for awards are evenly split between specific standards such as length of service and meeting assigned targets and more subjective ones like exceptional achievement and supervisor or peer nomination. Awards most often are in the form of cash, merchandise, status awards (e.g. club membership or travel privileges), or symbolic recognition (e.g. plaques or pins).

The majority of respondents consider their recognition programs to be successful to at least some degree. There is almost no variation by industry subgroup from the survey group as a whole.

Table 19: Basis for Awards Under Recognition Programs

Basis for Awards	Number of Times Mentioned	Percent of Organizations Mentioning N = 232
Supervisors' recommendation	129	56%
Other	71	31
Peer nomination	61	26
Meeting assigned targets	58	25

Note: Respondents reported multiple bases.

Table 20: Form of Awards Under Recognition Programs

Form of Awards	Number of Times Mentioned	Percent of Organizations Mentioning N = 232
Cash	121	52%
Symbolic recognition	104	45
Merchandise	82	35
Status awards	56	24
Other	46	20
Travel	39	17

Note: Respondents reported multiple forms of awards.

Company Assessments of Variable Pay Programs

Table 21 shows that about 75 percent of the companies assess their profit sharing, gainsharing, individual and small groups incentives as either successful or very successful. The only multiple reported failures were among profit sharing plans. The assessments are discussed following.

Profit Sharing

Seventy-two participants provided information on the degree of success they experienced in meeting their most important profit sharing objective (see Table 21).

The cases falling into the two extreme categories of "very successful" and "no success" were examined to see if industry patterns emerged and if particular objectives predominated in either the very successful or the unsuccessful plans.

The industry composition of the 24 very successful plans included all the industry groups except trade.. Eleven financial service companies reported very successful plans, or almost half of the 23 financial service companies with profit sharing plans. Eleven manufacturers, about a quarter of the 46 manufacturers with profit sharing plans, said their plans were very successful. One of the five diversified services companies and one of the four utilities with profit sharing each reported a very successful experience.

Of the primary objectives that were achieved very successfully in the 24 plans, nine were "bonus objectives," that is, after-the-fact organizational profitability. Seven were "incentive objectives," that is, employee actions leading to organizational success. The remaining eight were either very specific, e.g., union avoidance, replacing a traditional Christmas bonus, or very general, e.g., instilling the idea that profits are not guaranteed, or fostering a common culture.

Six companies, five manufacturers and one financial service firm, reported no success in achieving their primary profit sharing objective. Although generalizations are very risky with such a small number, the reasons for failure tended to be very specific. For instance, one company said the objective of creating additional profits by creating an incentive to produce those

Table 21: Degree of Success in Achieving Most Important Objectives

Degree of Success	Type of Program: Profit Sharing		Individual Gainsharing		Individual Incentive		SGI	
	No.	%	No.	%	No.	%	No.	%
Very successful	24	33%	14	29%	20	29%	12	30%
Successful	30	42	22	46	34	49	19	48
Partially successful	12		12	25	16	23	8	20
No success	6	8	—	—	—	—	1	3
Totals:	72	100%	48	100%	70	100%	40	100%

Profile of a Variable Pay Plan: The Du Pont Fibers Department Achievement Sharing Plan

Background

In October 1988, the Du Pont Fibers Department, the largest operating department of E. I. du Pont de Nemours & Company, announced its new Achievement Sharing Plan. According to the definitions used in this study, the plan is one type of profit sharing plan. Specifically, it is the type described in the section on profit sharing plans as "graduated amount above a threshold." However, Du Pont Fibers prefers not to use the term, "profit sharing." Robert McNutt, the Fibers Department manager who headed the task force responsible for the plan, says: "We avoided the words 'profit sharing' because that infers to many people a deferred capital accumulation program, or it might connote sharing all profits from the first dollar."

The adoption of variable pay in a major division (20,000 employees in 20 sites) of a major corporation sparked a great deal of interest in the business community. Companies are particularly intrigued with two features. First, all employees are eligible—union hourly through department management. Second, the plan contained a real element of "pay at risk." What is surprising to many was the acceptance of the plan with the pay at risk feature by the majority of Fibers Department employees. This endorsement calls into question the commonly held assumption that lower level employees do not want pay at risk.

Communication

No small credit for the favorable reception of the plan by Fibers Department personnel goes to the care taken by the task force in communicating the plan and educating employees about its operation. The plan's favorable reception no doubt also stems from the perception that the plan was developed by the Fibers Department for the Fibers Department rather than imposed by corporate human resources.

The plan was devised, introduced and implemented by a multi-functional, 12- person task force under the leadership of McNutt, and consisting of Fibers Department managers from R&D, plants, production, marketing, business and human resources. Also included was the corporate human resources manager.

In early 1988, the task force created education and communication committees that developed an overview brochure, a video tape and a detailed booklet. These were presented by trained "education coordinators" at each site. Follow-up meetings took place at each site and were held as often as necessary to ensure employee understanding of the plan. To keep employees up-to-date, quarterly statements are mailed to every employee detailing his/her stake in the Achievement Sharing Plan. As an inducement to participate, all employees who were in the plan as of January 1, 1989, received in February 1989 a gratuitous payment of 3 percent of base pay, or approximately the amount they would have received if the plan had been operative for the year 1988.

Earnings Objective

An earnings objective is stated each year in terms of the Fibers Department projected worldwide, after-tax operating income. The objective reflects a long-term earnings goal of an average of 4 percent real growth (above inflation) in annual earnings. The annual objective, in a particular year, may be higher or lower than 4 percent depending on various business and economic factors.

Offset to Base Pay

The Achievement Sharing Plan payout is designed to offset base wages and salaries and is thus true compensation at risk rather than additional compensation on top of competitive base pay. The offset is implemented by increasing the variable (achievement sharing) pay element at a maximum of 2 percent a year until the variable element is 6 percent of "target" (competitive) compensation and salary or wage is 94 percent. Put another way, the size of the possible base pay increase is reduced until it is 6 percent below target. Once the 6 percent offset is achieved, 94 percent of hypothetical pay increases will be added to base pay and the remaining 6 percent will be at risk, conditional on the variable element. The offset implemented in this proactive way accomplishes its purpose without the negative impact that a cut in current base pay would have.

Payment

The Achievement Sharing Plan begins to pay out at 80 percent of the annual earnings objective and continues to pay out up to 150 percent of the earnings objective. The size of the payout ranges from one-half to three times the percentage of pay at risk. Thus if pay at risk is 6 percent, an 80 percent achievement will pay out 3 percent, at 100 percent achievement the 6 percent offset is restored, and a maximum achievement of 150 percent of the earnings objective will produce 18 percent of pay (restoration of the 6 percent offset and 12 percent additional).

Objectives

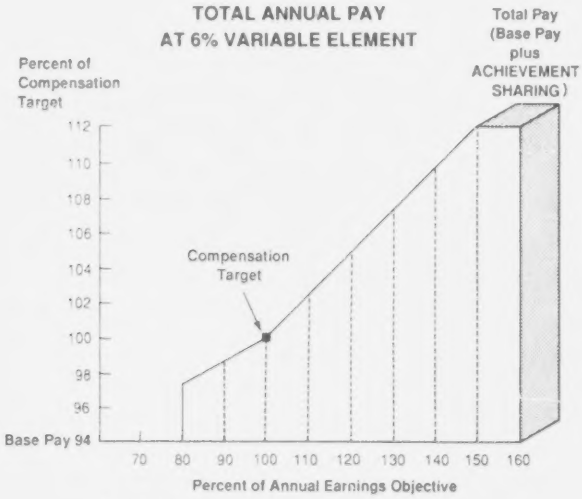
Since 1989 was the first full year of the plan's operation, no evaluation of its success can be made at this time. However, Du Pont Fibers executives indicate certain objectives they wish to accomplish with the plan. These are:

1. Give the employees a personal stake in the business.
2. Link Fibers Department performance to the individual.
3. Maintain competitive pay but make some fixed pay variable.

4. Reinforce a culture of competitive reality instead of entitlement—a shared destiny depending on the success of the business.

Some future objectives include evolving to measures of performance in Fibers Department units that will be compatible with the whole department. More frequent measures and payouts than the present annual ones are another possibility. A third future objective would be to open the plan to employees in the international operation and other domestic departments who are heavily involved with the Fibers Department.

The following exhibit graphically shows how the payout works.



Printed courtesy of Fibers Department, E. I. du Pont de Nemours & Company

profits was defeated by declining markets. Another observed that the objective of improving production efficiency was defeated by the cyclical nature of the business. A third reported over-control by the corporation in setting the objectives defeated the incentive intent because employees felt these objectives were outside their control. A final comment captured the problem of how over time a variable payment can come to be regarded as a fixed expectation and thus defeat its original purpose. According to the respondent in that firm: "This plan has existed for more than 20 years. The original intent is lost, but removing it would be a dissatisfier."

Gainsharing

Forty-eight participants provided information on the degree of success experienced in meeting their most important gainsharing objective (see Table 21). None of the participants reported "no success." The failure of a gainsharing plan to accomplish its primary objective is likely to result in its removal or modification more quickly than, for example, profit sharing, because gainsharing employs more concrete and thus more visible, measures for determining success or failure.

The 14 "very successful" plans were almost evenly distributed over the industries covered, although companies in the diversified services category reported no "very successful" cases. Most of the very successful objectives could be classified as either qualitative or quantitative. Six respondents cited qualitative objectives as most important, specifically, employee involvement and teamwork. Four responses specified quantitative objectives: productivity gains, safety and lower costs. Two plans had the same very specific objective: to replace an existing individual piece work incentive with the gainsharing plan. The remaining two objectives were general statements relating to improving company operations.

Individual Incentives

Of the 70 companies providing information on the degree of success they experienced in meeting the most important objective of their individual incentive plan, no real differences can be found among industry groups (see Table 21). Nor is there any significant difference in objectives among the three types of individual incentive plans (see page 11 for definitions). None of the respondents report "no success" in meeting their most important objectives.

Small Group Incentives

Forty of the participating companies provided information on the degree of success they experienced in meeting their most important SGI objective (see Table 21). Industry variations in the responses were virtually nonexistent.

The objectives of the very successful SGIs were examined and the only ones occurring more than once were teamwork (four times) and productivity (two times). The others were mostly objectives relating to very specific projects or goals. (The organization reporting "no success" did not specify its objective nor elucidate the reasons for failure.)

Conclusion

The growth in variable pay programs will probably continue in the immediate future for the reasons previously mentioned: the need for productivity improvements, the effect of deregulation, the desire to allow all workers to share in company prosperity, and dissatisfaction with the traditional merit increase.

Once a majority of companies have adopted some form of variable pay, the growth in new plans will level off. (This was the pattern when top executive incentive plans came into general use.) It is also anticipated that good and bad experiences with variable pay programs in business units will ensure a certain level of continual activity as defective or outmoded plans are canceled and new ones adopted, a situation that will be especially true among plans that use cost reduction measures or formulas involving improvement over a moving base. As these plans mature, the opportunity for cost reduction or continuous improvement becomes less, and payouts grow smaller. The dissatisfaction that follows results in the plan's cancellation or the drastic revision of its formula.

Three plans—the merit bonus, two-tier pay and the organization-wide bonus —are not likely to proliferate in the years ahead. The merit bonus, adopted for the specific purpose of lowering costs by reducing increases to base salary, is understandably unpopular with employees. Since it is also subject to the same criticisms as those leveled against the merit increase, the use of the merit bonus will probably be limited to situations in which adverse business conditions require fairly severe cost cutting measures. Like the merit bonus, two-tier pay is only applicable in very specific situations, namely, when wage rates have become highly inflated. The organization-wide bonus, as previously mentioned, is an anachronism from an earlier time that will probably be replaced by more formalized arrangements.

Profit Sharing

A flurry of interest is currently directed at profit sharing due to its adoption by major corporations such as Du Pont. However, in the examination of current profit sharing practices, there emerges an underlying question: does the average employee really have any impact on organizational profitability? One respondent complains: "The program has not been communicated effectively. Employees see payments as gifts and don't understand the connection between effort and reward." However, it is open to question whether the problem lies so much in the communication process as in the individual employee's ability to influence organizational profitability. In fact, the traditional rationale for annual executive incentive plans based on profits was that top executives could influence profitability while, by implication, other employees could not. If true, the advantages of profit sharing would appear to depend more on creating or expressing a culture of joint effort, focusing employees on company success and instilling awareness of financial goals rather than in the establishment of a specific link between individual action and profit outcome.

Gainsharing

Gainsharing will probably continue to enjoy the most use in manufacturing environments that lend themselves to concrete productivity measures. Gainsharing seems to have a good chance for success in a culture of involvement and teamwork where the standards are under the employees' control. This is illustrated by opposing comments from two survey participants. A manufacturing company with a successful plan and a very specific formula relating to production says: "Workers feel as though it's their program and continue to come up with ideas to improve the operation." A utility, which based its payment on the achievement of four corporate goals, says its plan was only partially successful because "the objectives are seen as corporate objectives. All employees do not see how they can impact them."

Individual Incentives

It is to be expected that individual incentives will increasingly come into use for salaried employees, especially managers and supervisors, further evidence of "pushing" top executive incentive plans down the organization to include nonexecutive managers. This was initially prompted by the desire to apply incentives to business unit managers, who were not top executives. The downward pressure will probably spread horizontally as companies include employees in nonoperating positions in their incentive plans.

On the other hand, there is some indication from survey participants that individual incentives for hourly employees are being replaced in some cases by group gainsharing. Such substitution allows the application of a single formula rather than a variety of individual ones.

Overall comments on individual incentives by survey participants indicate that when problems exist in top executive and department/unit type plans, (see page 11 for definitions), they usually arise from standards that are too subjective. In other words, when standards are too subjective, distinctions on the basis of performance are not reflected in the distribution of incentive payments, the same problem that occurs with merit increases based on performance appraisal.

Comments on the nonexempt production type plans indicate that the most successful ones are those that combine quality and quantity standards. One respondent, with a plan based solely on production volume says: "[This] objective was appropriate through the early 70s. New emphasis on quality acts in opposition to [the] original objective."

Other Variable Pay and Recognition Programs

Of the remaining types of variable pay, instant incentives and exception stock awards will no doubt continue to be used for unusual achievements and, by definition, will never be widespread. Small group incentives and pay-for- knowledge will also see continuing use in appropriate environments. Specifically, small group incentives work well in a project oriented culture, where projects are carried out by relatively cohesive and autonomous teams. Likewise, pay-for-knowledge is applicable in manufacturing environments where the required skills lend themselves to cross-training programs. An interesting possibility, which does not seem to have been explored extensively, is pay-for-knowledge arrangements for clerical employees, especially in the financial services industry, where multiple skills are particularly useful.

Recognition programs are presently used by over half (53 percent) of the survey participants. If the companies considering such programs adopt them, the total will rise to about 60 percent. These programs cover a very wide range of practices and can coexist with a variety of compensation programs. It is to be anticipated that if the emphasis on employee involvement by so many companies continues, these programs will become more formalized and made an integral part of the involvement effort.

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The Conference Board

Relocating Two-Earner Couples: What Companies Are Doing

Case studies of corporate spouse relocation assistance programs provide:

- *benchmarks for corporate policies*
- *assessment of program options*
- *guidelines for developing a policy*

Research Bulletin No. 247

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Relocating Two-Earner Couples: What Companies Are Doing

by Arlene A. Johnson

Highlights

When both husband and wife work, as is the case for 70 percent of American couples in the work force, it affects the decision-making, logistics, and finances of a relocation. To protect the viability of transfers, more than half of U.S. corporations are offering some type of re-employment assistance to spouses of transferred employees. Employers' experience with this new type of relocation assistance documents several key trends and policy issues:

- In most cases, spouse assistance is informal and ad hoc, but in a growing number of companies the process is formalized and expressed in terms of a business rationale.
- For companies that report the greatest satisfaction with their program, key issues have been internal needs assessment, communication of the program, and positioning the program alongside other work force issues.
- Three types of assistance form the basis of current employer programs: (1) information on techniques for self-marketing, (2) access to the local job market, and (3) personalized counseling and support. Each option has advantages, but there is as yet little data on whether spouse assistance is effective in reducing reluctance to relocate.
- New kinds of programs are emerging to address the problems of multiple operating sites, diverse spouse needs, and cost containment. Innovations include decision-making packages, flexible programs with multiple options, commuter allowances, assistance for unmarried partners, and programs for international spouses whose visas prevent them from working.

Many companies report launching or modifying their program within the last six months and others plan to start programs in the coming year, underscoring the fact that spouse assistance is a timely issue for companies that want to remain competitive in their relocation and work force policies.

Methodology

Research for this report was conducted by the staff of The Conference Board's Work and Family Center. The project is part of the Center's ongoing program to study corporate work and family initiatives and to develop information on options for implementing these programs in different work environments.

The content of nearly 100 personal interviews with representatives from more than 60 organizations provided the data for this report. Forty employer organizations granted interviews to discuss the status of their spouse employment assistance programs, motivation for the programs, and implementation experiences, both positive and negative. In the majority of participating companies, two or more in-depth interviews were conducted in order to provide a multidimensional view of how programs have developed. Interview participants included managers, administrators, and policy-makers. Participating organizations were selected to represent a variety of program options, as well as geographic and industry diversity.

In addition to the employer interviews, representatives of 21 relocation consulting and research organizations supplied information on the rationale for the services they offer, ways that employers use their services, and issues and trends they observe in corporate assistance for families.

Relocation surveys and articles in relocation and personnel journals provided a background for the analysis.

Introduction

Each year nearly 500,000 employees are transferred by their employers to new locations in the United States—to fill critical positions, to accommodate corporate reorganization, or as part of management development plans. To facilitate these moves, employers offer comprehensive relocation assistance programs that in 1989 cost, on average, $41,000 per relocation.[1] Alongside the traditional components of relocation assistance—such as payment for shipment of household goods, temporary living expenses, and costs of buying and selling a home—the 1980s saw corporations offering "spouse assistance" programs aimed at the increasing number of dual-earner couples who need to find a job for the relocated spouse.

Attention to spouse employment issues has increased gradually throughout the 1980s. In 1981, 4 percent or fewer of surveyed companies had policies for helping spouses find re-employment. By 1987, that number jumped to 10 to 15 percent, while over 50 percent reported that they sometimes provided assistance in a job search. In 1988, this was identified as one of the policy areas most likely to be under review for enhancement: a survey of 387 companies found that 15 percent of respondents had increased spouse services and another 27 percent planned increases in assistance for 1989.[2]

Corporate interest in programs for nonemployee partners is being fueled by three developments: the growing number of two-earner couples, increased employee reluctance to relocate, and heightened awareness of the link between family needs and a successful relocation.

Two-Earner Couples: Working Women

As a result of the dramatic increase in married women's labor market activity, the percentage of two-earner couples has increased from less than 48 percent of married couples in 1976 to almost 57 percent in 1987.[3] In the realm of social demographics, where significant social change is measured in decimal points, this is a change of remarkable magnitude. When only working families are considered, the preponderance of dual-income families becomes even more evident. In 1987, of all married couples with at least one spouse employed, two-earner families were 70 percent of the whole, and are projected to be as much as 80 percent of working couples by the year 2000.[4]

Not only are more married women working, they are earning and contributing more to the family's income[5] (see Charts 1 and 2). Since relocated employees are typically of a managerial rank, it is often assumed that a second income is less important for transferees than for the population as a whole. In fact, the opposite may be true. The highest work force participation rate of married women is among families with incomes of $50,000 to $75,000—the level of the typical two-income transferee family. In this income bracket, more than two-thirds of wives are earning salaries that have leveraged their families into affluence.

For many families, the wife's income can mean the difference between a comfortable life-style and just getting by. A relocation that gives a promotion and raise to the husband, but interrupts or reduces income for the wife, may prove a net financial loss for the family.

Two-Career Couples

Two-career couples present a special challenge for relocation. It is not possible to say exactly how many two-earner families are also two-career couples. To the extent that education and level of earnings define a "career" versus a "job," however, the number of two-career couples is growing. More than half of college undergraduates are women. They also earn half of all Master's degrees and continue to enter professions and management in increasing numbers.

The implications for corporate relocation are strong. A career spouse who relocates needs more than salary replacement—career continuity and growth are also important. The more

[1] See "Employee Relocation Cost Analysis, Tracking Trends to Gauge the Future," *Runzheimer Reports on Relocation*, December, 1989. Home sale and home purchase expenses are the largest part of relocation costs, as reflected in the fact that, while the average cost of relocating a home-owning employee was $41,000 in 1989, the average cost of a renter's relocation was $14,000.

[2] See "New Directions in Employee Relocation," *Runzheimer Reports on Relocation*, May, 1989, which summarizes policy trends based on a survey of relocation professionals. For a report on the emergence of spouse employment programs as a component of relocation assistance packages, see the Employee Relocation Council's "Executive Digest" of its 1987 Relocation Trends Survey.

[3] See Susan Shank, "Women and the labor market: the link grows stronger," *Monthly Labor Review*, March, 1988, pp. 3-8. Previous differences between labor market participation rates of married and unmarried women have largely disappeared in the last decade.

[4] U.S. Department of Commerce, Bureau of the Census, 1989, *Earnings of Married-Couple Families: 1987*, Current Population Reports, Series P-60, No. 165. Projected work force participation rates for women are used as a proxy for projecting the prevalence of two-earner couples since the two rates have paralleled each other in the past.

[5] For a discussion and analysis of census figures, see Fabian Linden, "Working Women," *The Changing U.S. Market*, The Consumer Research Center, The Conference Board, Inc., 1988. See also "Earnings of Married-Couple Families," *Family Economics Review*, Vol. 2, No. 4, p. 27. The earnings of working wives—especially if they have a college degree—are actually growing faster than that of their husbands.

Chart 1

Working Wives are Contributing More...

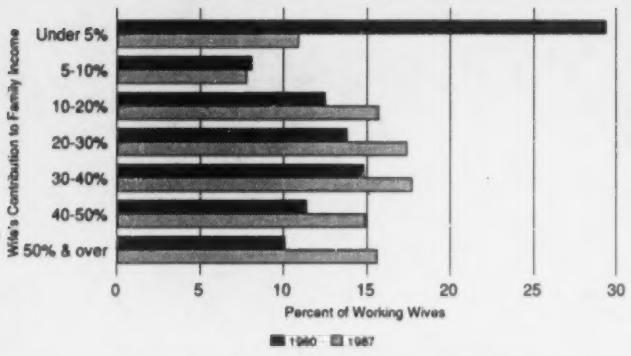
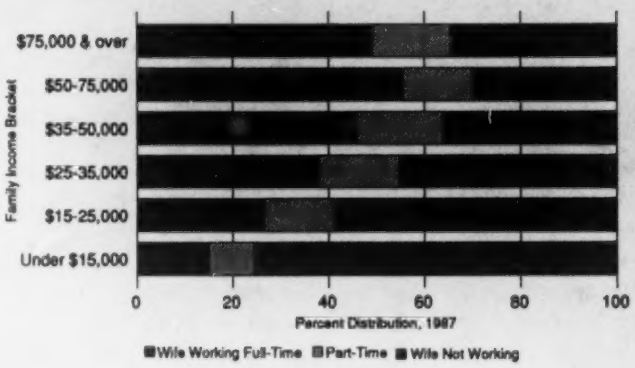


Chart 2

...and Raising Family Income Levels



Source: "The Changing U.S. Market," Consumer Research Center; The Conference Board, 1988.

specialized or highly paid the spouse, the more difficult the job search.

Employers who help a relocated partner find suitable employment are not just accommodating the employee, they are protecting the financial viability of the transfer.

Relocation Reluctance

Concern about the employment opportunities for spouses is one of several factors contributing to increased employee reluctance to relocate. In separate surveys, the Employee Relocation Council (E-R-C), Atlas Van Lines, and Prudential Relocation Management (formerly Merrill Lynch Relocation Management), found that employees' reservations about relocating have increased in the last few years (see Chart 3).

According to relocation managers, concern for the spouse's employment and the children's welfare are frequently given as causes of hesitance to relocate (though family issues are cited less often than concerns about living standards and housing costs). Companies experiencing employee reluctance describe the problem as "minor," but say it's one of the most challenging issues the relocation industry faces in the next decade.[6]

According to the Prudential Relocation Management study, the family components of reluctance may be underestimated, since research has relied on the *perceptions* of relocation and personnel administrators. Employees often hesitate to raise family concerns for fear of seeming uncommitted to their job. Moreover, these administrators generally work only with employees who have accepted transfers. Transfers may be turned down at the line management level without the knowledge of the relocation office.

Getting a first-choice candidate to accept a transfer is likely to become more difficult and more important. During the 1990s, the labor force is expected to increase at a much slower rate than in the early 1980s.[7] Such a slowdown, combined with a critical skills shortage, will create intense competition for management and technical skills. Employers may increasingly rely on transfers in order to deal with regional shortages and derive optimum use of available talent.

Work, Family, and Productivity

Employers are becoming more aware of the interaction of family needs and corporate objectives.[8] It is generally ac-

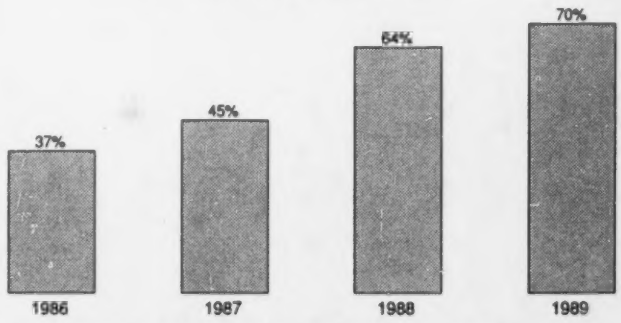
[6] Employee Relocation Council, "Executive Digest" of the 1988 Relocation Trends Survey; Atlas Van Lines, "Twenty-Second Annual Survey of Corporate Relocation Policies," 1989; and Prudential Relocation Management, "A study of employee reluctance to relocate," 1988.

[7] See William B. Johnston and Arnold H. Packer, *Workforce 2000, Work and Workers for the 21st Century*, Hudson Institute, Inc., 1987.

[8] For a discussion of the changing work force and its implications for family-supportive policies, see Audrey Freedman, *Human Resources Outlook 1990*, Research Bulletin No. 241, The Conference Board, Inc., 1989, and Kathryn Troy, *Rethinking Employment Security*, Research Bulletin No. 244, The Conference Board, Inc., 1990. For examples of corporate programs and the rationale behind them see also Helen Axel, *Corporations and Families: Changing Practices and Perspectives*, Report No. 868, The Conference Board, Inc., 1985, and Dana Friedman, *Family-Supportive Policies: The Corporate Decision-Making Process*, Report No. 897, The Conference Board, Inc., 1987.

Chart 3

Firms Reporting Employee Reluctance to Relocate



Source: Employee Relocation Council Relocation Trends Survey: 1986, 1987, 1988, 1989.

knowledged that, in addition to financial and professional concerns, family issues contribute significantly to the stress which is an inescapable part of any relocation. A transfer offer may stimulate worries about spouse employment, uprooting children, and the care of elderly parents, as well as getting reestablished in the new location. A family's adjustment is even more complicated if the wife, who traditionally managed logistics and homemaking, needs to divide her energies between settling in and job hunting.

One purpose of corporate relocation assistance programs is to moderate the stress and pressures of relocation, thereby keeping an employee productive and motivated. Traditionally, relocation assistance focused on the logistical and financial aspects of relocation, emphasizing reimbursement and physical relocation assistance. Today, the emotional, psychological, and family aspects of relocation are also receiving significant attention.

Weighing Costs, Benefits, and Options

Recognizing the value of family supports in relocation policy can, however, create a conflict for the employer who also wants to contain rising relocation costs. To explore the costs of addressing family issues versus the cost of not addressing them, the Employee Relocation Council commissioned a study by futurist Marvin Cetron. The study examines the implications of the changing family for relocation policy and concludes:

> "The power of working women is just beginning to be felt. As women take on positions of authority, they will be less likely to move for the sake of their husband's careers. And as women enter fields traditionally dominated by men, companies will be under increasing pressure to change their policies toward spouses."[2]

Many companies sense that they should be addressing the issue of spouse employment, but few, including those that already have programs, are confident about what they should be doing. Corporate practices are in flux, with new programs and consulting services emerging monthly. The rationale for spouse employment assistance has gained momentum in the last several years, but many questions remain about how to design and implement an effective program. This report describes the experiences of companies that have implemented spouse assistance, discusses program options, identifies policy design issues, and highlights salient questions and trends in the evolution of relocation assistance.

Female Transferees—and Male "Trailing Spouses"

As employers recruit and promote more women into professional and senior positions, the increase in male accompanying partners is likely to spur demand for spouse employment assistance programs.

The percentage of female transferees increased steadily during the 1980s, from a negligible number early in the decade, to 8 to 10 percent in 1986 and an estimated 13 percent of relocated employees in 1988.[1] Despite this rapid increase, women remain underrepresented in the transferee population relative to their presence in M.B.A., professional, and managerial ranks.

The growth in the number of women transferred is certain to continue. Employers are still hesitant about their willingness and ability to balance family responsibilities with a transfer, but that hesitancy is counterbalanced by several factors: (1) women recognize the link between career development and relocation, especially in fields like sales and marketing; (2) employers recognize that to amortize their investment in the recruitment and training of women, they need to utilize their skills wherever it is needed, just as they do those of men; and (3) the increased earnings of women make it economically feasible for more couples to consider a relocation for the woman's career.

As the number of married women transferees grows over the next decade, so too will the number of accompanying male partners. Young men are more likely than previous generations to accept a "trailing spouse" role. A 1986 study of married professional couples conducted by Allied Van Lines, found that 70 percent of the male respondents would move if their wives were offered a transfer. (Men over 35 were less likely to say they would move than younger men.)

Most male spouses want to be employed in the new location, and they may face special problems that require assistance. Reemployment for men is complicated by the suspicion some employers have about a man who would subordinate his career to his wife's. Data suggest that when the relocated spouse is a man, he is more likely to need and use spouse employment assistance than a woman. Mobil Corporation, AEtna Life and Casualty, and some employer consortia that have tracked usage rates of their spouse assistance programs find that 20 percent or more of their programs' users are men, a high proportion relative to the number of male spouses. In addition, relocation counselors report that while transferred wives may not always use the assistance offered, most husbands will.

[1] Employee Relocation Council, 1988 Relocation Trends Survey.

[2] Marvin J. Cetron, Rebecca Lucken, Charles F. McFadden and Barbara J. Weir, *Impact of the Changing Family on Employee Relocation; Implications of Spouse Employment*, Employee Relocation Council, 1987.

Developing a Policy

Interviews with relocation managers and relocation service providers indicate that many companies are in a decision-making or policy development phase. Some companies without policies have considered formalizing assistance for spouses and are monitoring industry opinion and internal developments to determine when there may be a need for policy change. Others are planning to launch a formal program within the next year. A large Midwestern firm, for example, plans to replace an informal practice of offering occasional job leads with a national program that is "broad-based and encompassing" within the first six months of 1990. Consultants and service providers see a marked increase in the demand for spouse services. One spouse assistance program had 26 active corporate clients in January, 1989, and doubled that number between May and October of that year.

In the course of establishing or enhancing spouse assistance, an employer inevitably confronts the basic question of motivation for the program—the need for the program and the purpose it will serve, for the employer, the transferee, and the spouse. Related questions concern the positioning of assistance, the conditions of availability, the role of outside service providers, and finally, how the success of the program will be measured. Answers to these questions may be explicit and conscious, or tacit and made by default. Either way, the answers are the decision points that shape the way a program is designed and implemented.

What Do Spouses Need?

There is disagreement, confusion, and even skepticism about just what a transferred spouse really needs and will use. According to some, career and professional people know how to market themselves, but hourly workers and nonprofessionals, who are considered generally unfamiliar with the job search process, need help. Managers who hold this opinion favor programs that offer generic information that help with resumes and self-marketing. They also emphasize the value of job market indices and employment databases.

Others contend that careerists, more than anyone else, need the most assistance because they have a greater personal and financial stake in employment. Their career transition is more difficult because management and professional jobs are in specialized market niches, are more region- and industry-specific, and are available through channels from which a newcomer is excluded. Employers who reach this conclusion emphasize the importance of personalized support, job market research, networking opportunities, and sponsorship in the local job market.

A growing number of companies, and most career counselors, take a position that needs vary by individual. The ease or difficulty of a job search is determined, they say, not by salary level but by the fit between the individual and the local job market. These companies favor a program that can be individualized—with different kinds of services available—and that have a capability for intensive assistance in some cases.

Confusion about what spouses need has led some companies to do an internal needs assessment. Marriott Corporation (see box), Mobil Corporation, Square D Company, and Ameritech surveyed their employees directly. The U.S. Air Force conducted focus groups and interviews. AT&T, Ford Motor Company, and Allstate Insurance Company collected feedback from ongoing management and employee groups. These assessments did not lead to the same conclusions, suggesting that variations occur within different work forces and relocation situations. But all the assessments did confirm the reality of two-earner issues. Within the scope of this research, every company that undertook an internal assessment decided to implement some kind of formal policy or pilot program.

Is There A Demand?

Part of the confusion about spouse needs stems from low program utilization rates. It is not uncommon to hear disap-

Needs Assessment at Marriott Corporation

In the spring of 1989, Marriott Corporation surveyed its transferee families to determine their needs. Since top management had recently set objectives for addressing work and family issues throughout the corporation, the time was right to investigate specific initiatives. The company's goal was to find out whether spouse assistance was needed and, if so, what it would cost. The intent was also to learn what negative impact would result from no action.

Marriott's assessment, managed by the relocation department, consisted of extensive telephone interviews and a written survey. All transferees in the process of moving (Marriott relocates 3,000 employees annually), were asked to discuss their anticipated needs. To a random sample of employees who had relocated within the past year, a written survey was administered which listed various kinds of assistance programs and asked: "Of the following, which would you have preferred? If this were available, would you use it? If so, how often?" These questions prompted many to write in the margins what the relocation director called "passionate responses."

Marriott found that spouses want resources. They want to know where to go for job information and how to get it. "We concluded that the need is not as intense as a lot of consultants would like you to think it is, but the need is there...and it's not always vocalized," the director says.

pointment voiced by executives who advocated programs and expected a good response. A manager of a durable goods manufacturing company where 10 percent of spouses use the assistance program exemplifies this attitude: "It's a small number considering all the feedback we got from employees asking for the program," he says.

On the other hand, some companies report a strong response to the programs. Raychem Corporation and BP America reveal that approximately 25 percent of relocating couples use the service. At BP, a need for the service is determined in the employee's initial relocation interview at the originating city; no spouse who was offered the service has turned it down.

Communication

The diversity of usage reflects as much about how employment assistance is communicated and perceived as it does about the need for the program. Managers, consultants, and industry observers identify three subjective factors that influence demand for spouse employment assistance:

(1) Transferees may be hesitant to ask for assistance, just as employees are reluctant to call attention to other family issues like child care. Fears about mixing family and work and appearing uncommitted combine to inhibit employees from mentioning family problems, even when those problems have a direct impact on work performance.

(2) The staff responsible for program communication and referrals may have conscious or unconscious reservations about offering the program. If the relocation counselor does not understand or believe in its merits or if a cost saving can be achieved by restricting usage, the program may not be offered with an open hand.

(3) Transferees and other employees may not recognize the value of the benefit, although it is in the employer's interest to offer it. The experience of employee benefits experts is that even very attractive new benefits must be communicated extensively before they are understood or utilized. Unless an employee has relocated frequently or is knowledgeable about the job transition process, use of the service will depend on the employer's marketing efforts.

Communication influences how well the program is used. One human resources executive explains that he is reluctant to expand the current policy because the demand is low and services are not being used. In the same breath he observes that the services are not openly talked about. "They could definitely be communicated better," he says.

At Kodak, where 10 to 15 percent of relocated spouses use the program, a great deal of effort goes into communication. The program is described in a book sent to all transferees, profiled on an internal database available to all managers, has been featured in the house newsletter, and enjoys word-of-mouth recommendations from employees and managers who have used the program over the last three years. Even so, company officials report, communication remains a problem—largely because hundreds of people are involved in hiring, staffing, and relocation and, therefore, in communicating the program to employees. Kodak believes the program will not achieve optimal use until each of those people understands the rationale and value of assisting spouses with employment issues.

Usage Rates

Usage rates tend to grow as the program becomes known. Johnson & Johnson's relocation manager points out that all human resource programs require a process of building understanding and use. Like J&J's other work-family programs in elder care and child care, he says, relocation assistance to spouses and families is in the early stages of communication and acceptance. It must be "continually publicized and brought to people's attention ... communication is tough in a big corporation with spread-out locations. You have to get the word out to the hinterlands," he says. Recognizing the importance of consistent communication, J&J is contracting with an outside firm to explain the assistance options to employees and to help them make an appropriate selection from the options available.

What's In It for Employers?

Managers give many reasons for becoming involved in spouse assistance. Some companies, especially those with doubts about the merits of the program, suggest that they were pressured to provide assistance. They cite feedback from employee involvement teams, fear about the impact of national demographic trends, and hard-sell tactics by consultants as elements of that pressure. One relocation manager candidly states that "hoopla in the media" concerning two-career couples has been more important to date than any internal evaluation. Except in high-cost housing areas where two incomes often preclude mortgage qualification, the goal of helping the spouse get a job is not frequently mentioned. Perhaps the objective of spouse employment is taken for granted—or perhaps it is not seen as an end in itself but a means to achieving other employer objectives.

In companies that made a conscious decision to offer assistance, the motivation is stated in positive terms: (1) to promote a more successful relocation by reducing family stress, (2) to offer a competitive relocation package, and (3) to reduce employee reluctance to relocate. While motivations are not determinative of program nature, the reason for a company's involvement seems to affect the kind of program it implements.

Reducing Stress

The rationale for assisting spouses, say many companies, is the same as for offering any kind of relocation assistance: to ease the stress of relocating and thereby reduce the productivity loss that a difficult move entails, and to emphasize emotional support and a caring attitude. The director of an innovative spouse program sums up:

> "It reinforces to spouses that the company really does have a concern—that we do care. In the past you got a sort of ho hum response when you said those words to them. If we actually take steps to assist a trailing spouse, the points you make from that are just tremendous."

Staying Competitive

Spouse assistance is becoming a necessary ingredient of a competitive relocation policy. Benchmarking and competitive analysis have led some companies to adopt programs. Says an executive in one of America's *Fortune 500* corporations: "We need to add this to be competitive. We wouldn't add benefits if others in the industry didn't have them."

Other companies adopt spouse and family policies, not just to stay even, but to take a leadership position. "We're looking at what it takes to be a premier employer," reports one company justifying its policy enhancements. Marriott's relocation director describes the situation for employers as one of "raising the table stakes." She elaborates:

> "Any time that you have an issue like work and family close to the surface, your table stakes change. No longer are basic benefits enough. Everybody has those. When your table stakes start to change, companies have a bottom-line reason for looking at it, because they're competing against a limited labor pool. That's when you start to quantify the cost of not doing something versus the cost of doing it."

Reducing Resistance

The goal of overcoming relocation reluctance figures prominently in the comments of managers as well as in the marketing literature of consultants. One manager explains that his company decided to implement spouse assistance "because of the change in worker demographics and because we wanted to encourage employees to consider transfers." Even in companies where assistance is not a policy, it may be offered on occasion to counter an employee's resistance to a high priority transfer or to entice a particularly desirable recruit.

Yet, there is doubt whether spouse assistance does in fact enter into an employee's decision about accepting a transfer. The availability and nature of spouse assistance is usually communicated during the relocation counseling process—after an employee has already said yes to the relocation. Exceptions to this procedure are group moves, in which the decision-making time line is extended, and competitive recruiting, where spouse assistance may be used to sweeten an offer. If an assistance program is well-known throughout the company, a couple may indeed be influenced, but most programs are still too young to have attained widespread visibility.

Moreover, in some companies the culture surrounding relocation is such that the employee does not really have a decision to make. "In my opinion," says one manager, "spouse employment assistance has very little impact on whether someone accepts or rejects [an offer]. They're not really asked, they're told—they're expected to go." Under these conditions, spouse assistance can only make a necessary choice more palatable. It may also affect the success of the transfer and the employee's willingness to consider subsequent transfers.

Whose Issue Is This?

Should spouse re-employment be considered a relocation issue—or should it be part of a human resources strategy for a changing work force? Is spouse assistance a matter for the relocation director, the human resource planner, the college recruiter, the benefits manager, or the work and family coordinator? Some companies answer, "all of the above." Companies find that the relationship of spouse assistance to the bottom line becomes more evident when the issue is positioned as part of a human resources strategy for attracting and retaining a diverse work force. Proponents of spouse assistance find they can leverage support by linking their program proposals to other human resource strategic issues such as staffing, recruiting, and work-family policies.

Recruiters are sometimes the first to document two-earner issues because executive recruits are in a better position than transferees to negotiate the issue of spouse employment. And the cost of assisting a spouse, say recruiters, is small compared to the cost of losing a first-choice recruit after thousands of dollars have been invested in the recruiting process. Programs at Mead Corporation (an employer consortium) and BP America (individualized counseling) are two examples of well-established spouse programs that grew from the efforts of executive recruiters.

Kodak, Mead and NCR

Kodak's program was sponsored jointly by the personnel and relocation departments. Since the majority of relocated families at Kodak are still traditional families with a nonemployed spouse, the relocation department was not able to justify a program built solely around relocation needs. But when the personnel department reported that recruiters were experiencing job offer rejections from members of two-earner families, the two departments joined forces and got approval of a program on the basis of its benefit for both new hires and transferees.

As competition for scarce labor increases, spouse employment assistance is also a competitive advantage in college and M.B.A. recruiting, emphasizes the director of recruiting and staffing at Mead. "An explanation of our spouse employment assistance is one part of our presentation at M.B.A. recruiting sessions at the top schools," he says. "It gets great play. Students want to know how it works and how it can help their spouse or fiance." NCR Corporation, which prides itself on recruiting top students, also believes spouse assistance will help attract the best candidates.

Dow Chemical and Mobil

At Dow Chemical and Mobil Corporation assistance is administered through the relocation function but is positioned as part of a long-term strategy for management development. Mobil's commitment arose from an internal assessment of career development practices (see Mobil case study on page 25). Dow tracks two-career issues as an integral part of its human resource planning, administered through the Personnel Resources Department. From internal surveys the company knows that 65 percent of its worker population is part of a two-earner family. An on-line human resources system flags dual-career couples, and tracks the mobility status of em-

ployees. The purpose is not to screen out two-earner families from transfers, but to alert management to situations that must be considered for successful transfers. The company feels this kind of information is important for succession planning and management development.

Not coincidentally, companies that define spouse assistance as part of a larger work force strategy tend also to have a formal policy commitment to employment assistance. They are, however, the exception. In most companies the decision for or against these programs is still a relocation policy decision, separate from conscious alignment with other human resource policies.

Spouse Assistance and Work-Family Programs

Two kinds of family-supportive benefits usually originate in the relocation department—spouse assistance and school matching, a service that helps families identify school systems that fit their educational priorities. Other work-family programs—such as child care referrals, elder care information, flexible work policies, and family leave policies—usually are developed by another arm of the human resources function. Whether and how spouse assistance is linked to these other family-supportive programs is an important consideration for policy development and implementation.

In announcing new child care benefits and spouse employment assistance at Amoco, Chairman Richard M. Morrow, linked both programs to the needs of a changing work force. His letter to all Amoco employees, dated October 3, 1988, began:

> "Both the American family and the U.S. workforce have changed dramatically in recent years. Today, there are more working women, more dual-career couples, and more employees with child care concerns than at any time in the past. Amoco recognizes that as a result of these changes, both men and women employees are increasingly faced with conflicting demands in their work and family lives."

Marriott, Allstate, Johnson & Johnson, IBM, and US Sprint are other companies whose spouse employment policies have gained momentum from a companywide focus on work and family issues. At Allstate, family relocation needs were identified when the benefits department directed attention to making all programs more family-supportive. At Marriott, the relocation department had been considering a study of the needs of relocating families, and top management's support for work and family policy development provided the support for doing so. Johnson & Johnson's policy gained impetus when the relocation department's assessment confirmed a need identified by a companywide task force on work-family issues.

Family policies and relocation assistance can be mutually reinforcing if they are coordinated. For example, experience shows a strong connection between effectiveness of spouse employment assistance and the availability of child care. Spouses report that they cannot devote energy to a job search until they find adequate child care in the new location. Faced with this reality, one company's spouse employment consulting firm set about to arrange child care for its client spouses—only to discover that the company already offered a service for helping employees find child care. That service, though available to transferees, was not being used because it had not been communicated as a relocation service.

AEtna and Allstate make transferees aware of existing corporate programs, whether or not they are part of relocation policy, thereby increasing support for relocating families without increasing costs. Says a manager in Allstate's benefits department, "We have had child care resource and referral for two years, but we hadn't communicated it or integrated it into the relocation program. Now we just remind relocating parents that they may have a need to learn about day care in the new area." AEtna transferees are informed of the company's child care and elder care referral program. The availability of these services, AEtna believes, makes a significant difference, since the company estimates that 10 percent of its relocation refusals are related to these concerns.

Despite growing awareness of family relocation needs, it is still common to treat such assistance and corporate work-family benefits as distinct and separate. In the words of one manager: "Relocation is viewed as a strict business policy, very distinct from work-family benefits." This attitude may prevail even in a company that has extensive benefits in the areas of child care, elder care, and flexible work hours. A relocation administrator in one such company explains, "Elder care and child care—that really doesn't have anything to do with us here [in the relocation department]."

Create or Buy?

Since third party firms are the service providers for much of the logistical and home finding aspects of relocation assistance, many companies also elect to purchase spouse services outside. And often when companies are formulating a policy or see a growing demand, they tend to turn to an outside contractor. Those companies that perceive a low demand for employment assistance or work with spouses only occasionally, however, continue to prefer informal assistance offered through internal staff.

The advantages of using an outside consultant include a high quality service, advice of career development and job market experts, conservation of internal resources, and confidentiality for spouses. An experienced relocation director observes: "I wouldn't even contemplate doing it internally any more...Outside of the time issue, spouses feel much more at ease if they don't have to talk to their spouse's employer." Cost is also a consideration. One relocation manager, whose company is paying $1,500 for each spouse counseled, explains, "We could not provide this level of service within the relocation department without sustaining dramatic cost increases."

There are, however, some disadvantages in the growing dependence on counseling consultants. One is that companies may see the options available only in terms of the packages consultants are offering. Some acknowledge that their priorities are strongly influenced by consultants. There is a danger that the process of selecting a consultant's package substitutes for developing a policy. To avoid ending up with an off-the-shelf program, Mobil worked with its consultant to tailor the program to its needs, and IBM and US Sprint negotiated modifications of a basic program in order to meet their company objectives.

Another danger in purchasing services is that the company may relinquish quality control by relying on the consultant and not developing an internal understanding of the issues. When some companies describe their programs, this dependence on outside firms is very evident. One relocation manager describes her arms-length attitude: "I want as little involvement as possible. I have lots of things to do, and this makes it as little work for me as possible."

Other companies advise that, even with the best of consultants, they cannot abdicate responsibility and involvement if the program is to be successful. They insist there be a control point, "a contact person or a small group of people who are totally responsible" for the quality and results. This is necessary not only to monitor job placement results but also to communicate and market the program internally, to refine and improve the service, and to help link the program to other strategic issues.

Who Gets Assistance?

Originally, spouse re-employment assistance was, quite literally, just that. In order to qualify for assistance, a person had to be married to the transferred employee and employed full-time before the transfer. Today, many companies see bottom-line reasons for expanding the availability of assistance. While many policies still specify that the assisted person be a previously employed spouse, others are making assistance available to a transferee's fiance or "significant other" of either sex. A growing number of companies are writing their official policy in terms of "partner assistance" rather than "spouse assistance."

The rationale for this change is pragmatic. If the purpose of spouse assistance is to facilitate a successful relocation, then anyone whose employment affects the transfer—or whose unemployment hinders it—deserves assistance. This leads some programs to go even beyond "partners" in offering assistance. At US Sprint, the policy extends to any household member, including a parent or child, who has been employed full-time in the previous 12 months. Raychem's policy is to assist anyone who is a "partner" of the employee, but, says the firm's relocation manager, "We would consider job assistance for a child or other person if there was a need and it made good business sense to do so."

Kodak and Amoco are among a small number of companies who offer individualized career counseling to all spouses, whether or not they have a work history. Amoco requires only that the spouse want to work in the new location. Kodak goes even further, allowing spouses to use the counseling to identify local volunteer opportunities or evaluate continued education.

The time during which a spouse may request assistance also seems to be expanding, on the premise that the family may need to get settled before the spouse can pursue employment. A number of companies, including Kodak, BP America, and Ford keep the option open for one year following the move. Even when time eligibility is restrictive, it may be interpreted flexibly to meet the needs of the family. As one consultant observes, "Time lines are necessarily vague as to when the clock starts running. Is it when the move is accepted or when the boxes are unpacked and the kids are in school?"

Assistance for partners of college recruits, if available at all, is usually on a more limited basis. But this, too, is changing as companies see a possibility for improving their competitive position on campuses. As of January 1990, Amoco began offering spouses of college recruits the same counseling package that longtime employees' spouses receive.

Does the Program Work?

On the whole, more time is being spent on selecting programs than in evaluating them. In part this is because few work place programs are ever evaluated. Moreover, program administrators are uncertain about what to evaluate.

The success of a spouse in finding a job is one measure of success. Companies that use external consultants have the advantage of knowing, usually on a quarterly basis, the status of every job seeker and the duration of every job search. Employer consortia also track these figures. But many employers have neither baseline data nor post-assistance data to evaluate the impact of assistance.

Internal program evaluations are usually based on utilization rates and employee feedback. If a program is well understood, usage may indeed be a measure of effectiveness. But, as noted before, utilization rates alone suggest as much about needs and how the program is communicated as they do about program effectiveness.

Employee feedback is sometimes informal and unsolicited. It may also be more formally solicited by surveying transferees about all aspects of the relocation from moving van service to home-finding assistance. But since self reports and general feedback are always influenced by subjective factors, successful job seekers are more likely to be positive in their feedback, whether or not the assistance was responsible for their success.

While feedback can indicate whether the employee is generally satisfied with the program the company provided, it may not give information for a cost-benefit analysis of the program's effect on reducing relocation reluctance or enhancing productivity. Generally absent is information on the length of the job search and what impact the move had on the spouse's career, earnings, and job satisfaction.

Some companies, however, are monitoring program results in terms of specific objectives. NCR Corporation is evaluating spouse employment as a factor in recruiting and relocation decisions. US Sprint gathers data on the time required for post-move adjustment. US Sprint's data is used to estimate the impact of assistance on shortening adjustment time, and therefore improving post-transfer productivity. At Mobil, where managerial retention and development was a primary motive for introducing assistance, the company is evaluating whether spouse assistance enables managers and professionals to move.

For many companies, the basic rationale for spouse assistance appears to take the place of evaluation, so that assumptions may go unquestioned. Many companies report that their interactions with transferees, the expressions of appreciation they receive, and the examples of successful job searches provide the necessary evidence for the value of the program. Experience validates what they know intuitively—that in the short run, spouse assistance makes for more successful moves, and in the long run, helps to keep their work force mobile.

Program Options

Within the human resources and relocation community, there is widespread awareness of how dual earner issues may affect the acceptance and success of a corporate relocation. Great variation, however, exists in how employers act on that awareness.

Annual relocation practices surveys (see table on page 13) support three observations about the current status of spouse assistance programs:

- Though many companies have spouse assistance practices or "programs," few have written policies. Most employment assistance for spouses is still offered on a case-by-case basis, with as much as 75 percent of companies surveyed offering some type of assistance on some occasions.
- There is no consensus on what type of assistance is best. Unlike the mid-1980s, when a large increase in the number of companies offering assistance was reported, much of the change in spouse assistance today is in the nature of services being offered and suggests cautious experimentation.
- There is evidence of a trend toward relying less on internal corporate resources in favor of committing funds to using outside services to assist spouses. This may indicate increased long-term commitment to spouse assistance.

As a result of the policy development of the last few years and the increase in consulting services, many model programs now exist for employers to consider. (For a summary of options, see box on page 14.) The shape that a corporate assistance policy takes depends not only on the types of assistance offered, but the way in which that assistance is delivered, personnel and financial resources available, and corporate assessment of spouse needs. Though diverse in their implementation, all corporate programs offer one or more of three basic types of assistance:

- Information on job search skills and career transition
- Access to local job market
- Individual support and counseling

A fourth type of assistance, financial reimbursement, allows the spouse to purchase one or more of the above.

Printed Job Search Information

Brochures, policy statements, and informational handouts are an integral part of most corporate relocation packages. In addition, a transferee may receive an information packet to pass on to the relocating spouse. Providing printed job transition information is a low-cost way of acknowledging the spouse's job concerns and of alleviating the stress associated with a job search. Since a major source of stress is anxiety about the unknown, psychologists and counselors who study the relocation process point out that factual information, clearly presented, addresses that anxiety and helps families cope with the multiple tasks of relocation.

Job search information offered to spouses varies. Some companies provide an inexpensive, brief brochure with a checklist of "tips for a career move." Others commission or purchase detailed information, often in workbook format and sometimes accompanied by audio tapes, bibliography, and job-seekers' resource directory. Some employers distribute these materials to all relocating families, while others make it available on request or at the discretion of the relocation administrator.

The workbooks and manuals are usually step-by-step guides to managing a job search. They begin with self-assessment exercises (what are your major accomplishments and goals?), and take the user through planning a job campaign (how to research a job market and identify major employers) and marketing oneself (how to write an effective resume and interview successfully). The content is generic career guidance information that is packaged for transferees. The per-unit cost for the most comprehensive, self-administered career transition packages can reach $500.

In the early and mid-1980s, when the term "spouse employment assistance" was entering relocation parlance, including any type of spouse career information in the corporate relocation package was considered an innovative step. In its 1987 survey of relocation trends, E-R-C found that 15 percent of its respondents were providing spouses with printed materials (2 percent as a formal policy and 13 percent on a case-by-case basis). Administrators and consultants today suggest that the prevalence of this kind of assistance is increasing, but usually not as a stand-alone package. Companies that are investing in spouse job information materials often provide it as one of several options. Some examples:

- As part of the company's comprehensive programs to assist families, Johnson & Johnson distributes a package of in-depth information on job search techniques to relocating families. The material is available on request and is supplemented by personal counseling as needed. This approach replaces the informal and occasional assistance the company offered prior to 1989. It was selected because it could provide detailed, generally applicable information at a relatively low cost.
- U S West gives working partners a choice of either a self-guided workbook with audio tapes or up to $2,500 to apply to job search costs such as employment agency fees, interview trips, and job counseling. This program replaces in-house job counseling that the company offered prior to 1989. The printed information is intended to satisfy the needs of most spouses, but the reimbursement option is also available for especially difficult job transitions.

Prevalence of Spouse Employment Assistance Programs
A Summary of National Surveys*

	Employee Relocation Council Annual Relocation Trends Survey		Prudential Relocation Management Annual Study of Corporate Mobility Policies Among Major U.S. Corporations				Runzheimer International Survey and Analysis of Employee Relocation Policies and Costs	
	Formal Policy	Case-by Case						
	1987 N=489 %		1985 N=606 %	1986 N=606 %	1987 N=613 %	1988 N=614 %	1987 N=618 %	1989 N=586 %
Using Internal Resources								
— In-house assistance with resumes and job counseling (informal counseling sessions)	3	37	44	49	50	43	48	43
— Help find employment with other companies at the location	2	48	59	57	57	43	54	55
— Reimburse job search expense/pay for job-finding trip	—	—	11	18	15	17	12	11
— Place spouse within company	1	44	40	41	43	33	41	36
Using External Resources								
— Pay fees of outside search firm or employment agency	—	—	12	13	13	15	12	6
— Provide printed materials on job search	2	13	—	—	—	—	—	—
— Pay for formal job counseling	7	10	25	27	30	35	16	18
— Percent of firms reporting that they provide some assistance	10	62	—	—	27	32	30 case-by-case 30 5 formal policy 8	

* Totals may exceed 100 percent because of multiple answers. The findings are not strictly comparable because the surveys used different wording to describe program options, and not all options were included in each survey.

• Compaq Computer Corporation supplements the information package with a "Career Corner" at the company's relocation resource center. The company also participates in a consortium of Houston employers who cooperate in circulating spouse resumes. The program was implemented in March 1989 as the first formal policy to support relocating families. Unlike companies that provide information packages on an as needed basis, Compaq, with 500 relocations annually, provides the materials to all of its married transferees, even if it is not requested. This increases the impact of the assistance, says the firm's director of relocation. "It prevents any misunderstandings or doubts about who really needs it. Spouses who really need a lot of help and support use it the most."

Printed information is an attractive option for companies making the transition from informal assistance to a formal policy or wishing to offer substantive assistance while keeping costs down. As one relocation administrator explains, "We chose this route because we think the concerns of the trailing spouse are an issue, and we know we should do something about it. But the nature of the problem is not documented sufficiently to

Options For Spouse Employment Assistance

Type of Assistance	*Advantages*	*Disadvantages*
Printed Information on Job Search and Transition	— Portable, self-paced — Easy to administer and distribute — Communications company concern — Relatively low cost	— Quality of materials varies — Relies on individual motivation and discipline — Not targeted to individual needs, no follow-up
Employment Data Base	— Low cost beyond start-up — Easily accessible — Allows spouse to preview market	— High investment at start-up, needs ongoing update — No personal support or follow-up — Spotlights standard job categories, not special situations
Informal Networking	— No direct cost to employer — Conveys concern for employer and spouse	— Inequitable—in level and availability of service — Impractical for serving large number of spouses
Internal Placement	— No direct cost to employer — Reduces employer's cost of recruitment — Eliminates need for job search	— Can benefit only a small number of spouses, limited by range of internal job categories — May substitute for broader-based assistance
Employer Consortium	— Little or no direct cost — Increases visibility of spouses and spouse issues—members become informed advocates — Good placement results	— Labor intensive relative to placements — No support for spouse beyond original contact — Large volume from any one company overloads system
Individual Support and Counseling	— Targeted to personal needs, communicates concern for individual — Motivates and supports job search — High success rate, shortens job search [Using *internal* resources: Reduces direct costs Using *external* resources: Preserves confidentially]	— Higher unit cost — Requires extensive communication efforts [Using *internal* resources: Counseling expertise varies Using *external* resources: Externalizes knowledge of spouse issues]
Reimbursement for Job Search	— Spouse can select assistance needed — Company pays only for services used	— Impersonal—focuses on logistics, not emotions, of job search — No quality controls on purchased services

justify a big expenditure or a Cadillac program." Though the role of information in reducing stress and conveying corporate concern is well-documented, little data exist as yet about the effectiveness of job search information in helping the relocated spouse find a job.

Access to Job Market

An axiom of job-seekers and career counselors is that 80 percent of available jobs are unadvertised and are available only through word-of-mouth referrals, networking, and personal leads. Salary ranges for a particular city, local licensing requirements, location and travel times to major employers, regional demand for specific job categories, names of peers and professional organizations are examples of information that job-seekers need and relocated spouses often do not know how to get.

The value of this information is immediately apparent to both employers and relocating families. Not all spouses value or will use assessment and interview skills information, and some em-

ployers view job counseling as "soft" assistance. But everyone recognizes the relevance of job leads and employer information.

Employment Databases

The use of databases to sort and target information is increasing. While the idea of computerized job banks is not new, advances in computer networking and access to on-line terminals, as well as growing comfort with computer technology, suggest that national and even international databases will become a part of many spouse assistance programs.

In response to its needs assessment survey, Marriott plans to start building a national database in 1990 that will enable transferees to access job market information in the new location. Marriott plans to gather information from sources in the field using real estate brokers, chambers of commerce, and other local contacts, first in major cities and later adding smaller ones. Though the program envisioned is large, the cash outlay is expected to be less than other assistance options.

A database may provide a profile of a job market, or it may store actual job leads. As of early this year, AT&T began offering transferred spouses access to a hotline of job leads throughout the U.S. Though originally created to assist employees who were changing careers due to a result of downsizing and reorganization, its potential value for relocation was recognized by a committee investigating spouse employment options. Individuals accessing the database complete a personal job profile, which is then matched with the three most appropriate openings in the database.

A database may be one of several types of assistance that a company provides. Warner Lambert, for example, contracted with an outside firm in early 1990 to provide relocated partners with access to a database as well as counseling, networking, and guidance components.

Relocation consultants and government organizations are also using databases as part of their spouse assistance programs. A program in the U.S. Air Force centers around a modem-connected, international database that enables couples to preview job opportunities at several locations and then factor spouse employment opportunities into their choices. (See box on pages 16-17.) The Family Liaison Office of the U.S. Foreign Service, Department of State, went on-line in November, 1987, with the Centralized Data Bank of Family Member Skills, a service that allows the receiving location to preview the arriving spouse's skills, education, and prior work experience, and to initiate job search activities.

Informal Networking

Over the past few years, employers have typically provided job market information to relocated spouses by informally helping to identify possible job leads. Called "networking," this type of assistance is voluntary on the company's part and is done as a favor or accommodation. Even with the growth of formal assistance and consulting services, these informal referrals remain the most prevalent type of assistance; of 471 respondents to the 1987 E-R-C Relocation Trends survey, 48 percent reported that referrals are made on a case-by-case, informal basis.

Some companies have made a conscious decision not to adopt a formal policy, but to handle spouse employment needs by drawing upon the human resource manager's contacts. This approach requires from one hour to one day of the manager's time, depending on the job needs. Companies report, however, that they tend to give more time to spouses of senior executives or highly desirable recruits, and to spouses with unusual job requirements.

While informal referrals have the advantage of entailing no out-of-pocket costs or policy commitment, they have the disadvantage (from the recipient's perspective) of being limited by the extent of the local contact's network and time available—significant limitations in light of the growing number of employed spouses and the diversity of their employment interests. Equity is another potential issue with informal referrals. Not everyone who needs assistance will get any or equal service.

Internal Placement

One market to which an employer can easily provide access is its own. Many employers may be open to employing spouses, provided that couples do not have direct reporting relationships with each other. According to the E-R-C 1987 survey, internal placement is the second most prevalent form of informal assistance.

Du Pont and Dow Chemical have formalized the internal placement option and give a relocated spouse preferential consideration for available positions. Dow's guidelines for internal placement, dating from 1987, state: "Normal consideration will be given to non Dow-employed spouses for openings at the new location. They will be given preferences over other new hire applicants, provided they are qualified for the job opening." Dow reports that it has had excellent experience with this hiring practice. Of the company's approximately 1,200 relocations annually, 400 to 500 are dual-income moves. Of these, 50 to 80 spouses are placed internally.

Even a large corporate headquarters, however, cannot offer positions to meet all needs. For this reason, companies that have a commitment to spouse assistance may use internal hiring as the first option to explore, and supplement it with other types of assistance. Raychem Corporation always considers a transferred spouse for internal placement, but when that is not feasible, the company offers personalized counseling and networking assistance. IBM adds a personal counseling service to its internal placement option, and has increased the amount available to reimburse spouses for their job hunting expenses. Dow finds that many more spouses are serviced by the personal counseling and support services than by internal placement.

Consortia

The employer consortium is another approach for giving special access to the local job market. The objective is to give high visibility and direct access to the region's leading employers. These networks usually consist of 25 to 50 employers located

United States Air Force: A Global Database With Local Coordination

Readiness is to the U.S. Air Force what profits are to corporations—the reason for being. When the Air Force discovered that spouse issues were jeopardizing mission readiness, it set out to create employment assistance that could serve its 123 major installations around the world and, in the process, change some traditional attitudes.

In the late 1970s retention had become a serious problem. Expensively-trained, highly skilled personnel were leaving the service in increasing numbers. Studies showed that attrition was related to family issues. The findings demonstrated that employment is important to a spouse's satisfaction with military life, and spouse support for the service member's career is important in the decision to reenlist. Responding to these findings, a centralized Air Force Family Matters Office with a Family Support Center was established at every major installation to deliver family services, including spouse employment assistance.

When the spouse program was evaluated in 1984, the concept of a working spouse was found to be in direct conflict with the organization culture. The institutionalized role of the military wife was to support her husband's career through social and volunteer involvement in the life of the base. The strength of this tradition prevented spouse employment issues from being fully recognized and addressed. "Spouse employment is not an issue here," many commanders reported.

In August, 1987, the *Air Force Times* published an article recounting incidents of women who had been pressured to give up employment for the sake of their husbands' careers. Publicity surrounding this article prompted the Chief of Staff and Secretary of the Air Force to "affirm career plans and aspirations of spouses" and to appoint a blue ribbon panel to make recommendations on how to resolve the tension between traditional military expectations and the growing trend toward spouse employment. After talking with 2,600 officers and spouses on 17 bases in every major command, the panel recommended in March 1988 that the Air Force substantially enhance its spouse employment assistance program.

The resulting Spouse Employment Resource Program (SERP), was launched in May 1989, and combines a range of direct and indirect services in three types of programming: (1) supervised job search training, (2) active networking, and (3) an automated job bank. Spouse Employment Coordinators (SECs), whom each installation was directed to add to its Family Support Center staff, were charged with developing, delivering and marketing these services.

The job search training aspect of the program covers a full range of career planning topics in workshop settings. Explaining why the Air Force chose this approach rather than giving spouses one-on-one counseling or a job search manual, the chief of family policy and long-range planning observes: "There are only a few people who are successful in using self-motivated, self-taught materials. Since you're dealing with a population that moves every two to three years, it makes sense to teach the skills of the job transition process."

In the manual of program guidelines, SECs are instructed to give a substantial amount of their time to developing networking and referral systems (see diagram). This activity includes promoting the hiring of spouses in the civilian community, establishing links to local business and professional organizations, developing information on volunteer and

within a specific geographic region that agree to give prompt attention to spouse resumes. Each corporate member has a representative who identifies spouse employment needs and circulates resumes to other consortium members. Employer consortia are active in a number of locations including Columbus and Dayton, Ohio; Dallas and Houston, Tex.; Northern New Jersey, Washington, D.C., and Research Triangle Park, N.C. (see box on page 18).

Some consortia are informal, but most have designated leadership, regular meetings and defined referral procedures. In Dayton, Ohio, the I-75 RATS (so-called because the members provide Relocation Assistance To Spouses and are located along a 65-mile stretch of highway I-75) meet monthly to maintain the network and to exchange resumes. Additionally, members and guests (no headhunters are allowed) meet two times a year to hear speakers and to discuss personnel and staffing issues.

The Dallas Metroplex Spouse Employment Assistance Program (DM/SEAP), with 40 members in the Dallas area, conducts quarterly programs for its general membership. The seven-member administrative board meets for two hours each month to handle membership development, to monitor consortium activity, and to address any emerging problems, such as companies that are overloading the network or making inappropriate referrals.

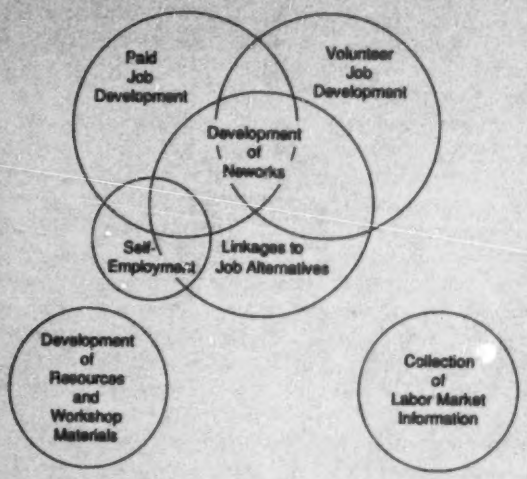
Targeting spouse resumes is critical, says the management employment manager for J.C. Penney, Inc. and DM/SEAP board member: "We work to maintain the integrity of the system. Out of 40 members, an individual resume may go to just one or two companies. Our initial concern and continuing commitment is to avoid creating a paper mill." To help members make appropriate referrals, each member company develops a program directory profiling the types of positions for which the company recruits externally. The referring company compares the spouse's background with the program directory to look for a match.

Building on the experience of other consortia, DM/SEAP developed an efficient and streamlined referral procedure. Accompanying each resume is: a cover sheet, printed on canary yellow paper so that it will stand out in the recipient's mail and receive prompt attention, and a feedback sheet to be sent back to the referring company indicating whether or not the resume matches an existing position. Unless the receiving company follows up with an interview, no further contact with the spouse takes place.

From the spouse's point of view, critics contend, the consor-

Chart 4

The Job of the Spouse Employment Coordinator



Source: "Spouse Employment Resource Program Guide," U.S. Air Force.

self-employment opportunities, creating an employment resource center, and compiling information on the local job market.

The key to making job referrals and to linking employment information worldwide lies in the automated, stand-alone job bank system developed for the SERP. The bank contains two files: one on clients' skills and preferences, and one on local job vacancies sorted by occupation code. Cross-referencing matches client skills and employer requirements. The job bank system also stores information on the number of spouses who get jobs, the length of their job search, the range of jobs for which spouses are hired, the match of jobs to spouse skills, and the local employers who hire Air Force spouses. This information is for quarterly reports and evaluations of the program's success.

Through the database, Air Force couples can preview job opportunities at several locations prior to a transfer. Spouse information is entered at one location and sent by electronic mail to the location being considered, where the SEC downloads the local job information, cross-references it to the spouse's qualifications, and sends back the profile. The spouse can start setting up interviews in the new location, and, when two or more locations are under consideration, the couple can make an informed decision about the next transfer.

In order for the system to work, the SECs must work together as a team and support each other with accurate information. To insure that they understand the rationale and requirements of the program, all SECs attended an initial week-long orientation and training when the program was launched. Recognizing that programming needs to reflect the local job market, training participants were divided into two groups—those located in the Continental U.S. and those working overseas or in remote U.S. locations. Each group learned how to develop resources and market the program in its own labor market.

The enthusiasm created by the training has carried over into program delivery. Counselors report that the combination of the data base and local counseling provides a structured, yet flexible, system that serves the needs of different personalities and sites. Air Force officials contend that the family programs will remain a high priority because they improve morale, productivity, retention, and readiness.

tium approach is impersonal. An executive at Mead Corporation, who founded the Dayton consortium in 1979, however, observes that as time passes, the members become more involved in working with spouses on resumes and on interview skills prior to referring them to the network. "Early on, they didn't think it was necessary to spend the time," he reports, "but they eventually started to see that unless they spent the time, the deal was likely to come unglued." Feeling a need to personalize the network, the Dallas consortium has sponsored several "spouse mixers" where job-seeking spouses and company representatives have an opportunity to mingle and meet one another.

Working with spouses to find jobs requires time. Active consortium members estimate that they spend five to ten hours monthly meeting with spouses, attending meetings, and reviewing resumes. While most do not find this burdensome, they point out that they receive no release from their other job responsibilities. They do feel gratified when placements result and spouses are appreciative. But placement is not a certainty. The Dayton consortium estimates that it meets the needs of about 75 percent of referrals, though other networks report far fewer placements. According to a J.C. Penney relocation executive, the consortium is a cost-effective avenue, but only one of many approaches the spouse should use. "All kinds of assistance work together. People changing careers, for example, need to use every avenue."

In addition to providing placements, the employer networks are also a low-cost source of recruits. Of the spouses that Mead has hired through the consortium over the years, 15 are now identified as high potential employees. According to the company, this represents a tremendous saving when the low cost of the consortium is compared to the fees charged by executive search firms.

Organizers of consortia offer three tips for success:

- Monitor procedures to keep them efficient. Require that members target spouses' resumes selectively.
- Strive for a balanced membership that reflects the local job market. In addition to corporate employers, include educational institutions, government agencies, the health industry, and not-for-profit organizations.
- Require member representatives to be committed, responsive and involved. They should have experience in staffing and recruiting, and should understand the job-search process.

The enthusiasm for spouse employment networks appears to come not only from tangible placement results, but also from the professional development opportunities a consorti-

An Employer Consortium In North Carolina

In 1984, Duke University and the University of North Carolina were having difficulty recruiting their first-choice faculty members because some recruits' spouses were not able to find employment in the Research Triangle area of North Carolina. Concerned that spouse employment issues would threaten their ability to attract top faculty, the two universities organized a consortium of area employers to address spouse employment.

In 1985, the consortium began circulating resumes of relocated spouses among the original 32 members. By 1989 the membership had grown to 39, consisting primarily of local corporations but also including a public school system, several universities, and some medical, governmental and social service organizations.

Explanatory material for members states that the consortium "does not guarantee employment for spouses, nor is it appropriate to request preferential consideration of spouses for positions. Rather, the program is designed to assure that relocating spouses have access to information pertaining to available positions and an opportunity to be considered for positions for which they qualify."

Members initially expected that they would be circulating resumes for female secretaries who accompanied their husbands in a transfer. They found instead that the majority of spouses they were dealing with were professional level people including teachers, scientists, accountants, vice presidents, and production managers. Another surprise was that each year between 23 and 30 percent of the referred spouses were male.

Referral and placement statistics from 1985 through 1989 show that about one-third of the spouses referred to the consortium have found employment and 15 to 20 percent have found employment with consortium members. The time required to find employment ranges from one to twenty months, with the average being a little over five months, depending on whether a career change was involved.

The consortium has several auxiliary benefits for the participating companies and their representatives. The spouse program reduces recruitment cost for participating companies, and membership in the program has been found to enhance the image of the employer in the community. For companies going through layoffs and staff reductions, the group has expanded its services to assist with outplacement, adding outplacement candidates to the resume pool. For the employer representative, the consortium provides a route to professional development, a way to share job market data and network with peers.

Over the years the group has refined standard referral procedures, but expects each member to handle its own feedback to spouses. The group encourages personal contact with spouses and avoids soliciting evaluations by mail.

The consortium demands commitment from its members. The "spouse coordinator" from each member organization is expected to attend quarterly meetings and actively participate in the consortium. If top management supports the need for spouse assistance, then work in the consortium is likely to be a part of the representative's job description. But in some companies, representatives find that consortium responsibility demands overtime.

According to the group's guidelines:

"Employers who participate in the Program agree to:

- send and receive resumes of spouse of recruited and newly relocated employees with the network of Program participants
- assure that prompt and thorough reviews of spouse referrals received will be conducted by appropriate managers in their organizations
- acknowledge and report back to the referring participant regarding each spouse referral received
- appoint a person within each of their organizations to serve as the contact person/program coordinator
- furnish employment information on a regular basis to other participants
- be represented at all quarterly meetings of Program participants."

um affords. One consortium member describes the meetings as "opportunities for interaction and camaraderie. In addition to knowing people beyond your own industry, we use the networking to learn about innovative recruitment and retention strategies."

Individual Support and Counseling

Career counseling is an option that a growing number of companies offer spouses. It normally begins prior to the move and consists of one or more sessions in which a counselor helps the spouse identify career goals, write a resume, and plan self-marketing and interviewing strategies. In addition to developing job search skills, the purpose of the program is to provide emotional support for the job-seeker during the relocation and job transition.

No other form of spouse assistance arouses such strong opinions—pro and con—as the personalized assistance approach, often referred to as "spouse counseling." Companies that have rejected this approach claim it is unnecessary and too expensive. "Only confused people need counseling," says one relocation administrator. In support of personalized assistance, another administrator contends, "There's nothing that takes the place of personal contact. It helps offset the trauma you're asking people to go through, and it's a bargain compared to comparable services like outplacement."

In-house Counseling: Allstate and CIGNA

The content, scope, and cost of individual counseling services depend on whether the referral is to an in-house person

or to an outside service. In the case of in-house services, the service provider may be a staffing or career specialist within the company but is often the same relocation administrator or personnel manager who deals with the employee on other aspects of the move. In-house counseling rarely includes any kind of personalized follow-up during the job search period.

Between one-third and one-half of companies say they have offered informal counseling sessions in conjunction with ad hoc services to spouses. The frequency of this approach, however, seems to have declined somewhat in the last few years, perhaps as a result of more companies formalizing their programs. Because of the informal nature of this assistance, the role of administrators in providing job counseling is usually not explicit. Whether a spouse receives assistance may depend on the administrator's sensitivity and skills, the time available, and, especially, on whether the employee raises the issue of spouse employment.

At Allstate, meeting with the spouse to discuss the job search process is specified as part of the relocation administrator's job. In order to give families more support and reduce the stress of relocation, Allstate revised its guidelines for relocation administrators in 1989, making each administrator the point person for all aspects of the move. Allstate expects relocation administrators to facilitate a job search by meeting with the spouse to offer job-hunting tips and a resume critique. The benefits manager who helped develop the new guidelines explains: "We knew people couldn't just rely on a brochure. They need to go to a person for help. We want the local coordinators to manage the move, to coach people through all aspects."

At CIGNA companies, spouses who want career assistance are referred to the internal career placement department where a consultant will work with each individual to prepare for new employment. To supplement the counseling, the company tries to set up informal job contacts, and also will replace up to one month of a spouse's current salary in order to ease the transition.

In-house counseling was a standard practice at U S West until 1989 when the company replaced the in-house referrals with various printed information. Before the number of relocating spouses became more than internal resources could handle, relocation counselors referred every transferee's spouse to the corporate staffing office for a personal job needs assessment. With growing numbers of job-seeking spouses, the burden on internal counseling resources may prompt more companies to turn to career counseling firms.

Referral to External Counseling Services

The number of companies contracting with outside firms for counseling services has increased gradually over the past five years as more companies establish formal policies on spouse employment assistance and as more consultants develop and market these programs. The services are usually purchased from career counseling organizations, outplacement firms, or third party relocation firms with services targeted especially to the needs of relocating spouses. Prices range from $1,000 to $2,500 per client. The price may be lower if services are offered as workshops for groups of transferees or if the counseling is exclusively via telephone.

A distinguishing feature of this type of assistance is the extensive, counselor-initiated follow-up that continues throughout the job search. Raychem Corporation reports that counselors they use contact their clients at least on a weekly basis. Some programs define a specific period of time for follow-up, typically between two and twelve months from the time relocation is completed. The time limits, however, are interpreted liberally, and some services stay in regular contact with their clients until they find jobs.

An efficient referral process and prompt follow-up are important for the program's success. To prevent an interested party from being unintentionally screened out at the referral stage, Amoco and US Sprint ask the transferee to complete a Spouse Employment Assistance Form, sending a copy to a human resources representative at the new location. At Mobil, the spouse has a personal interview with a trained counselor to establish job needs. In many cases the consultant must contact the spouse and set up an appointment within 24 to 48 hours of receiving the referral. In the interest of speed and efficiency, AEtna makes all its spouse referrals by telephone.

Job Development

Like the career counseling and outplacement models upon which they are based, all spouse programs stress the importance of clients acting on their own behalf. However, an important modification has occurred in spouse counseling in the last few years. A number of service providers have modified their programs to take into account the short time frame and financial requirements of a corporate relocation. The result is that relatively more effort goes into helping the client penetrate the local job market than in traditional career counseling. As one experienced spouse counselor explains, "In traditional career counseling, the task is to empower the client to act, but in the case of relocation, the company is paying you to give real assistance for as rapid and successful a career transition as possible." Motivating and supporting the spouse is still an important part of the service, but many spouse programs are also offering job development, job market research, and networking assistance as an integral part of the package.

Employers place a high value on the job development aspects of counseling services. Describing his criteria for selecting a spouse assistance service, a relocation manager explains: "My sense is that the better spouse employment assistance firms are those that help develop job opportunities. The good ones will pick up the phone, make contacts, get a network going, and set up a lunch." Elaborating on Kodak's spouse assistance over the last three years, a counselor for Kodak notes, "The major difference between spouse counseling and regular career counseling is that relocated people need much more help in networking and meeting people. They're in crisis, and they don't have any contacts in town. They need to be provided with names of selected individuals in their field. We tell them, here are some people who can be helpful to you. Call them and use my name."

US Sprint's Comprehensive Program

Over the past three years, US Sprint has developed a comprehensive relocation career assistance program, one that is likely to expand even further in 1990. US Sprint's first program in 1987 was an in-house counseling service offered through the training and development department, supplemented by literature for a study-at-home approach to self-marketing techniques. The company was satisfied with the quality of the service but, based on feedback from employees that it was difficult to discuss personal situations with an in-house counselor, began to consider using an outside consultant to work with spouses.

In May, 1988, the company added an income replacement feature, on a trial basis, to help dual-earner couples that had trouble qualifying for a mortgage. Mortgage lenders, the company found, would credit the couple's income at 100% of the spouse's previous income if the spouse had guaranteed income replacement for two months. An unexpected side effect of this policy enhancement was that, by enabling couples to buy housing more quickly, the company cut its interim living expenses by 50%.

In early 1989, routine focus groups revealed that "partners," not just "spouses," were at the heart of employee relocation concerns. The company then expanded assistance to include "partners" on an informal basis. When surveys confirmed that management saw this as reasonable, the policy became official.

The visibility and strategic value of the "working partners program" increased when it was integrated with the companywide Family Care initiative announced in August, 1989. A massive task force and policy development process culminated in home mailings to all employees describing the company's integrated approach to managing career and family.

For any working partner or household member, the entire assistance package now includes a personal career consultation, resume preparation, secretarial support and use of office space, access to a national job-lead bank, reimbursement for job search trips, and guaranteed partner income replacement up to $2,000 per month for 60 days. According to the company, the enhanced working partner program is already yielding productivity benefits. Partner assistance has reduced average adjustment time (i.e., low productivity time) by approximately three months.

Looking ahead, the director of relocation foresees new programs to help young children adjust more quickly, relocate teens, and assist college students in finding jobs. This year the company will focus on creating programs for nonworking partners to help them reconnect with volunteer and community activities.

From the company's perspective, support for the program can be explained in terms of its emphasis on personal service, internal communication, and productivity. Though group workshops were considered as a more economical way of delivering career counseling, the company ultimately decided that personal attention added value to the program. With each policy addition, the relocation department monitored the reaction of executives and management, always communicating the reason for and results of a pilot program.

The rationale for the entire program is productivity. The company's relocation philosophy is: "If we need your expertise somewhere else, we want to make every effort to get you there with as little disruption to your life as possible. That's the central issue in relocation—productivity. And you get it by focusing on the spouse, partner, and family issues."

Some corporate programs even specify a job development component as part of the counseling process. Amoco describes its program as 12 hours of individualized counseling, part of which is research by the counselor on networking contacts and opportunities in the local job market.

Impact

Another company found it practical to use two different kinds of counselors to provide these two components of the counseling process. A career counselor guides the self-assessment and personal goal-setting, but a special relocation counselor, who has a background in recruitment and the local labor market, works with the spouse on job-finding strategies and tailoring the resume to the local job market.

For employers, the biggest plus of the counseling approach is the personal contact and support—and what it conveys to the transferee and spouse. After weighing alternative options, one relocation manager chose individualized counseling because, "nothing takes the place of personal contact." According to a Kodak relocation executive, "We put stock in our ability to counsel people. If you just handed people a book or money, you would lose that counseling aspect. Research and experience shows that people wouldn't feel as good about it. In relocation it's the emotional aspects that will kill you, and it's the counseling that gets you through."

Many consultants provide periodic reports on the status of each spouse's job search, thus enabling employers to monitor the impact of the program. One company's report, not unique, is that "everybody who has used the service has ended up with a job." Statistics from Ford and Merrill Lynch show that 50 percent or better of referred spouses found jobs in two months or less, compared to the rule of thumb for outplacement allowing one month of job search time for each $10,000 of salary. Moreover, no spouse suffered a career setback; each new job was a lateral move or promotion. Over the three-year span of its spouse counseling program, Kodak finds that 90 percent of referred spouses find jobs, with an average search time of three to four months. AEtna reports similar results.

Corporate executives agree that the biggest problem with offering personalized employment assistance is managing the

Internal and External Counseling at Dow Chemical, U.S.A.

Through a centrally coordinated system emphasizing communication and quality control, Dow Chemical U.S.A. capitalizes on the benefits of both in-house counseling and external consultants. At its Midland, Mich. headquarters, the volume of transfers makes it cost-effective to have a full-time specialist on spouse employment issues. Dow contracts with a national network of career counselors to provide counseling to spouses at its other 40 sites.

In 1987, Dow promulgated guidelines for hiring spouses internally, but those not served by that option were offered additional assistance. An arrangement with a local college provided incoming spouses the same on-campus employment resources and counseling that the college made available to its students. After a six-month pilot program, Dow concluded that the general services were not sufficiently targeted to spouse needs. The company contracted with the college for a full-time counselor to work exclusively with them.

Since 1987, the counselor has served 150 incoming spouses annually. Though technically a college employee located physically outside the Dow facilities, the counselor is familiar with the organization, works directly with its managers, and works full-time on the employment needs of spouses moving into the Midland area. Since the program began, 310 spouses have been served. In addition to working with each person individually, the counselor provides group workshops, video taped interviews for skills practice, and weekly two-hour sessions in which local managers talk about opportunities in the region. The counselor developed a directory profiling 200 area employers, and those who cannot find employment to match their original goals are offered counseling on alternate career paths and techniques for changing careers.

In order to improve communication, in 1989 Dow added one part-time person to its Personnel Service staff to meet personally with every relocated spouse or fiance. The new position coordinates all spouse services. Explains a representative from Dow: "We saw an advantage to centralizing the initial interview with the spouse. We learned that if service delivery was handled by 15 different HR people at the division level, spouses would not get the quality or clarity of service that a central person can offer." To assure quality service at its other locations, Dow relies on detailed, quarterly reports from its contractor. Statistics are the most telling aspects of the reports, but the company also monitors the process a spouse follows from the time of referral to the end of job search. Dow depends on its contractor counselors to take a "holistic approach" and treat the needs of the whole individual. "It's part of our culture to handle things on an individual basis," says a company official.

In 1990, Dow plans to produce a brochure about the program which will be sent to all supervisors and relocating couples. In addition, it will use a videotape to orient supervisors and employees to the program.

Based on their experience with spouse assistance, Dow believes that centralization and sensitivity are the keys to a quality program. Having an internal focal point increases internal support for the program as well as giving it consistency. The company also stresses that the company offers no job guarantees. The spouse still needs to put forth a great deal of effort—not even the best assistance will erase the personal and emotional issues of a two-earner relocation. "Such issues never go away; they can only be minimized."

spouse's expectations. A transferring couple may erroneously assume that employment assistance means job placement. No matter how much networking assistance and follow-up the counselor provides, there are no job guarantees in this type of service. A great deal still depends on the client's initiative and follow through.

Dow Chemical finds that it is important to correct any misconceptions at the outset when the program is first communicated. As an entree to clarifying the nature of the assistance, the Dow counselor asks spouses what they know about the program and what their expectations are. Amoco tries to avoid misunderstanding by putting a detailed description of the service in its relocation handbook for transferring employees. Part of that description reads:

> "While this program cannot guarantee that your spouse will find a job, it is designed to equip spouses with the tools necessary to effectively carry out the job search process in order to secure a new position."

Employers who have experience using external resources for spouse counseling advise companies considering this approach to: (l) make one internal person the focal point and coordinator of the service in order to maintain consistency, accurate communication, and quality control; (2) choose a consultant who is flexible and can adapt the service to the needs of the individual and the company's culture; and (3) stay in contact with the consultant and monitor the service carefully, especially at the beginning.

New Developments

As the idea of spouse employment assistance gains acceptance and companies compile experience with different assistance options, a process of fine tuning and innovation is starting to occur. A number of companies are enhancing and modifying their programs (see box on Ameritech). Some are altering programs to address particular business situations.

Some of the most innovative approaches are in response to four thorny questions:

1. How can companies offer the comprehensive assistance that some spouses need without paying for unnecessary assistance in other cases?
2. How can assistance be offered so that it influences the decision-making process and encourages couples to give positive consideration to a relocation offer?
3. What can be done for expatriate spouses when work permit regulations prohibit their employment?
4. How can relocation trends and changing employee demographics be reconciled?

Flexibility: The Cafeteria Approach

During the last decade, many employers replaced traditional one-size-fits-all benefits with flexible plans. Recognizing the diversity of life-styles some employers are also designing relocation assistance programs that have built-in flexibility.

The kind of help needed is influenced not only by the individual job-seeker, but also by the job market into which the person is moving. Some find a job quickly, while others are destined for a long and difficult career transition. Some need only to be pointed in the right direction, while others benefit from extensive support. The range of individual needs poses a challenge for corporations.

Flexibility already exists in many programs to some degree, via individual counseling, choice between options, policy exceptions, and job search reimbursement policies. One-on-one career counseling assistance lends itself to individualization, but at a price, some companies say, that is excessive for the minimal level of service many spouses need. This is why companies like Johnson & Johnson and U S West offer a choice between different types of assistance, or require the relocation counselor to select the best option for a family.

Another way to adjust to individual needs is with policy exceptions and ad hoc arrangements. Beatrice Corporation, for example, recognizes that a two-earner couple may require more time to complete a move and sometimes stretches the guidelines on temporary living expenses to adjust to the spouse's job search. The director of human resources says that when exceptions are necessary, benefits should be seen as a pie that people divide to suit their individual needs. "We want to give flexibility within a framework. The primary emphasis is to give people enough time to organize two lives. If people need more time, we will try to accommodate them."

Reimbursement for job search costs is another route to flexibility. Square D provides payment of one month's salary up to $2,000. The money can be used for any purpose related to job hunting. Other companies, such as Unisys, Du Pont, and Hewlett Packard, reimburse, within a specified budget, the actual costs of a job search. Reimbursable expenses defined by the company include counseling, resume preparation, job search trips, and local licensing or special training. Although reimbursement allows individuals, in effect, to create their own assistance programs, one drawback is that it does not to provide any guidance in selecting quality or relevant assistance.

IBM and Raychem Corporation

IBM and Raychem Corporation have addressed the issue of individual differences through innovative programs that define available services and maintain quality control, but also allow choice. IBM, one of the first companies to offer a spouse assistance program, enhanced its program in late 1989 to increase the amount and flexibility of services available to relocated spouses. In addition to raising the reimbursable amount, the new program includes an individual counseling option that adapts the amount of assistance to the individual's needs. Spouses may choose one of three options: (1) job search reimbursement up to $1,000, (2) a basic program of individualized career counseling sessions, or (3) a more extended career counseling program. The basic counseling option consists of several hours with a counselor to work on self-assessment and resume preparation. The extended program provides additional hours of counseling and follow-up.

IBM's program manager for relocation and reimbursement plans, observes, "We want a flexible program because each spouse's employment situation is so different. We expect that most people will only need the basic service, but we also want to be able to help the individual who must reevaluate what she can do with her skills."

Raychem Corporation offers a cafeteria approach to individualized counseling. Any spouse who needs job assistance is given a budget to "spend" at a local career center. The spouse may select several kinds of assistance from the following list of options: (1) help in building a network of peers in the area for exploring the job market; (2) preparation of a targeted resume; (3) interviewing practice and role playing for self-marketing; (4) job market research to develop a list of potential employers; (5) self-assessment; or (6) ongoing support, including help with cover letters and coaching during the job search.

Raychem's relocation manager reports that most spouses use up their budget and take advantage of a broad spectrum of serv-

Ameritech: Needs Assessment Helps Design Program

Ameritech has offered spouse assistance on a moderately successful basis since 1983, but a needs assessment survey in 1988 helped the company incorporate spouse assistance in a comprehensive program of family-supportive relocation assistance.

Year	*Event*	*Result*
1983	New company formed following AT&T divestiture; introduced spouse counseling as an innovative program; company reimbursed 50 percent of costs of counseling to $1,500	Low usage; employees complained about sharing cost
1984	Worked with consultant to modify company usage and condense service to be offered at $750	Low usage; company felt it was addressing only part of the issue
1986	Spouse counseling budget raised to $1,500 with no employee contribution	No major complaints; moderate usage
1987	Management emphasized the importance of diverse experience for managers and the role of relocation in career growth	Two-earner couples expressed anxiety about the implications for families; questioned the company's "sensitivity"
1988	Company conducted relocation needs assessment survey of 400 recent and potential management transferees to identify family issues for relocation policy	Recommendation developed for policy enhancements to support families
1989	Recommendations approved by personnel VPs and relocation group of each operating company. Policy additions include: • Terminology changed from "spouse" to "one household member"; • Enriched counseling program; up to $3,000 for expenses associated with job search; • Special care allowance for elderly or disabled dependent; school matching service; • Commuting allowance for up to 12 months if immediate relocation is impossible; • Allowance for children in househunting trip; • More short-term assignments to reduce relocation	Favorable employee response
1990	Workshops on relocation to communication policy and inform employees	Unknown

ices. "We have never done anything that has caused a greater positive response from transferees. The service reinforces to spouses that the company really does have a concern. I've had many people tell me the best thing about this program is having someone to talk to, to keep your spirits up."

Decision-Making Packages

Couples rarely have the opportunity to evaluate job opportunities in the new location before deciding whether to accept or reject a transfer offer. If the company has a spouse assistance program, the couple may not even learn about it or what it offers until after the relocation is under way. A few companies have begun to offer a "pre-decision package" to reduce the anxiety of the unknown and, especially, to reduce employee resistance to relocation. The intent is also to avoid unsuccessful relocations and their attendant costs. Analogous to a house-hunting trip that previews the housing market, these packages allow the couple to preview the job market.

Group Moves

Providing pre-decision information is most common in group moves, in which the relocation process typically extends over 12 to 18 months. The long time line accommodates extensive fact gathering. For example, in moving its corporate headquarters from New York City to Fairfax County, Va., Mobil asked its consultant to provide extensive job market research for the Fairfax area over an 18-month period from 1988 through 1990, when the move will be completed. The spouse assistance firm providing individualized job consultations has also developed an information center. The center contains lists of area industries, social service organizations, educational institutions, and other local employers, as well as annual reports, contact names, lists of professional organizations, and licensing information. Couples are encouraged to visit the center and talk to a career counselor as part of their preview visit to the Fairfax area.

Another group move that offered pre-decision job market research involved Sterling Drug's move from Albany, N.Y., to

Philadelphia, Pa., in 1989. Sterling, building on the spouse program of its parent company, Eastman Kodak, individualized and personalized the fact-finding process by offering two-earner couples a pre-move, decision-making consultation. Any couple that used the service received a two-hour consultation, by phone or in person, to assess the spouse's needs and job interests. The counselor, a paid consultant, then conducted three hours of research on the spouse's behalf in the new job market, and supplied a written report to the couple outlining the general employment picture in terms of the spouse's objectives. The report typically included information on potential employers, salary ranges, and opportunities relevant to the spouse's field, as well as answers to specific questions that may have been raised in the initial counseling session. The Sterling Drug program appears to have succeeded in encouraging couples to accept the group move. The overall employee acceptance rate was 44 percent, but over 65 percent of the employees using the decision-making package accepted the relocation. This suggests that pre-decision information, while not eliminating the need for an eventual job search, may remove the fear factor that inhibits couples from considering a transfer.

Individual Transfers: NCR Pilot Program

For individual transfers, the short decision-making time line, usually four weeks or less, precludes couples from gathering anything but general information. Therefore, providing site-specific information for individual transfers is more difficult. NCR Corporation is one of the first companies to address this problem with a formal program.

As of late 1989, NCR is offering a pilot spouse assistance package that has two phases: (1) a pre-decision consultation and information component, and (2) if the couple decides to take the assignment, a comprehensive employment counseling component. The idea for this two-phased approach grew out of a committee, appointed in the spring of 1989, that was composed of employees who knew the issues firsthand as transferees and as partners in two-earner families. The committee recommended that spouse assistance be offered up front, to everyone, early in the relocation process to help couples make an informed decision.

Prior to notification of a transfer opportunity, an employee is informed of the possible offer and, should spouse employment be an issue in considering the offer, that assistance is available for assessing job opportunities in the new location. The pre-decision service consists of one hour of consultation and needs assessment, three hours of job market research in the new location, and a summary written report for the couple highlighting opportunities and key considerations. To assure that the process is objective, the service is provided by an outside consultant. If the couple accepts the assignment, the same consultant will continue working with the spouse to do further needs assessment, networking and resume preparation.

During the pilot phase of the program NCR is collecting data. In its first months of operation, the program has been well utilized. In fact, some divisions that were not originally a part of the pilot have recognized a business need for the assistance and have asked to be included.

NCR expects the program to have payoffs, not just for relocation, but also for the company's career development system and recruiting. According to the personnel vice president: "We're a worldwide company. Very few of our professionals can have a management career satisfied in a single location. We promote from within. When you lay those facts against the backdrop of the phenomenon of dual careers, you conclude that we need this program to build upon our human resources investment and assure mobility within the company."

International Relocation

International assignments pose a special challenge for two-earner couples because, regardless of whether the spouse can find a suitable job in the host country, work permit legislation and entry visas are often extended only to the relocated employee. An international transfer may mean enforced retirement for the accompanying spouse for the duration of the assignment. This is especially problematic for a career spouse because a lengthy absence from the work force makes career reentry difficult when the overseas assignment ends. The importance of expatriate experience for management development and succession plans is likely to increase as U.S. business expands its operations overseas and absorbs the implications of globalization. In many companies, international assignments already are required experience for key personnel. The incidence of international two-career relocations is likely to grow in frequency as well as importance as more women enter the pipeline for top management positions.

Informal Arrangements

Over the past few years companies have used a number of informal approaches to provide overseas employment for accompanying spouses. In cases where overseas employment is not possible, companies sometimes help identify meaningful volunteer opportunities or help a spouse reenter a career when the foreign assignment is finished. Through networking between human resources and relocation staff, employers have been able on some occasions to identify job openings with other U.S. companies at the receiving location. Some large firms have developed informal, reciprocal agreements with other multinationals to help accommodate relocated spouses, but the highly contingent nature of this approach limits its effectiveness. Some organizations have waived nepotism restrictions and hired spouses internally.

Couples are also working out their own arrangements. A large New York-based financial services firm reports that a growing number of women are asking to work overseas to accompany their husbands on overseas assignments—and the number of men asking for overseas service is growing for the same reason. The firm tries to accommodate these requests, but the individual is paid as a local employee, not as an expatriate. Obviously this kind of arrangement works only if both hus-

Mobil Corporation: A Strategic Approach to Two-Career Relocations

When Mobil found that two-career relocation issues were inhibiting its career development system, it made strategic plans, not only to assist relocated spouses but also to reduce the number of corporate relocations over the long term.

Traditionally Mobil had developed managers by moving them around to give them a broad base of experience. In response to concerns that employees were increasingly unwilling to relocate, the company undertook an internal study in 1987 and 1988 to determine the extent to which relocation concerns affected either career development or retention. The study had three components: a questionnaire administered to a sample of current employees, a post-exit questionnaire sent to former employees, and a spouse questionnaire and telephone interview with 100 employee spouses.

A key finding was that involvement in a dual-career family is the most significant predictor of reluctance to relocate. Moreover, the greater the salary of the spouse, the less willing and able the employee is to relocate. The study also found that anticipation of a requirement to relocate was a factor in employees' decisions to resign, especially among young employees in a two-career couple. The data led the company to conclude that, if projections for the increase of dual earner couples held true, there would be a 50-percent increase in relocation refusal rates over the next 10 years as well as a 20-percent increase in turnover among professional, managerial and sales employees.

Based on its internal study, the human resources planning department made five recommendations:

1. Establish a nationwide spouse employment assistance program to provide individually tailored, high-level outplacement, and counseling services;
2. Provide a commuting option (housing allowance and transportation stipend) as an alternative to relocation for short-term, career development assignments;
3. Improve communication with new hires and current employees regarding the role of relocation in career development;
4. Minimize the need for relocation by using four major hub locations in career development.
5. Strengthen career development counseling with greater emphasis on future development steps.

These recommendations were implemented in 1989. In its first year of operation, the spouse assistance program served 129 spouses in 43 different cities. As part of the emphasis on hub locations, the company relocated its corporate headquarters to Fairfax, Va. Other hub cities are Rochester, N.Y., Princeton N.J. and Dallas, Tex. By concentrating jobs in a few geographical areas, Mobil expects to be able to reduce the number of relocations necessary for future managers.

band and wife are employed by international firms with operations at the same site.

Formal Programs: BP America

One of the first formal programs for international spouses is a new multifaceted package developed for British Petroleum America in Cleveland, Ohio. In 1988, BP America's expatriate population in Cleveland grew dramatically as a result of the company goals for internationalization. Though BP (formerly SOHIO) has had domestic spouse employment counseling in place since the early 1980s, the influx of expatriates left no time for organizing programs for spouses. As a result, the spouses themselves took the initiative, working with the relocation department to provide a range of services that combine individualized counseling with group support and networking.

The foundation of the program, launched in January, 1990, is an initial session with a career consultant, followed by meetings set by the counselor with members of the Cleveland business, academic, and volunteer community who share the spouse's interests. The intent is to help the spouse establish a peer network to stay in touch with personal and professional interests. A schedule of biweekly group meetings, monthly outings, and quarterly luncheons provide opportunities to learn about Cleveland and meet one another.

Since work permit legislation restricts most spouses from working in the U.S., part of the program's focus is to work with a consortium of Cleveland employers to develop opportunities for spouses to pursue professional and personal interests on a non-paid basis. This includes options for academic study, change in visa status, and volunteer opportunities. For those that have unique skills and may qualify for a work visa, the program provides information on the process for changing visa status and helps to identify business organizations that might sponsor the spouse for employment. BP lends the services of its immigration attorney as needed.

A Challenge to Relocation Trends

During the 1980s the number of corporate relocations climbed steadily, despite rising costs, changing transferee demographics and evidence of increased employee reluctance to relocate. For the most part, employers have responded by developing programs to reduce the stress of relocation. Some companies believe, however, that corporations must reevaluate their relocation requirements and reduce the number of transfers.

Mobil is one example of a company that is working to decouple career development from the need for frequent relocation (see box above). Looking toward the future, some human resource planners envision increased use of telecommuting, short-term assignments, and other alternatives to relocation. In the words of Du Pont's manager of corporate relocation, "In the future there will be a continued increase in employee reluctance to relocate and there will be fewer relocations."

Summary and Outlook

Spouse employment assistance programs are becoming more prevalent and formalized. Interviews with relocation professionals and consultants confirm that many companies are in a decision-making phase, evaluating the benefits of moving from informal to formal policy, or enhancing their current offerings. The experience of companies over the last few years suggests some guidelines for companies that want to develop effective spouse employment assistance programs.

Successful programs are built around a needs assessment, a clearly stated business rationale, and ongoing evaluations. Companies that report the greatest confidence in their program develop them in response to a defined need, relate them to clear corporate objectives, and monitor them on a regular basis. Lacking internal needs assessment or evaluation data, most companies cannot document the value of their spouse programs. This detracts from the perceived value of the program, dulls marketing and communications efforts, and effects usage. Setting and monitoring objectives enables an organization not only to measure the program's benefits but also to identify weaknesses and modify the program to support overall relocation and business objectives.

Direct costs should be only one factor in selecting a program. Many spouse assistance programs today are cost-driven rather than strategic. Caught between pressure to "do something" about two-earner transfers on the one hand and contain the ever-rising costs of relocation on the other, many companies use cost as the decision factor for selecting a program approach. Often ignored or underestimated are hidden costs of staff time spent working with spouses and productivity loss in difficult relocations. Since the overall cost of spouse assistance, even for a comprehensive program, is a small part of the total relocation expense, decisions based on cost alone run the risk of trading off program effectiveness for relatively small savings.

To leverage the program's impact, align spouse assistance with other human resource objectives. Innovative programs that have top management support are often those that link spouse assistance to larger human resource objectives in recruiting, retention, management development, and work-family balancing. Defining the implications of spouse assistance too narrowly limits the carry-over and impact of an assistance program. Since relocation is a specialized function within human resources, and the reality and logistical aspects of relocation assistance are outside the mainstream of human resource functions, it is easy for spouse assistance to become segregated from other, related programs. Two-career issues are, however, part of the larger concern for managing a changing work force. Spouse assistance may eventually prove as important for M.B.A. and campus recruiting, for example, as for internal relocations.

Successful programs need an internal champion or coordinator. Companies that report high satisfaction with their programs can usually identify a focal point person who works closely with consultants, monitors results, takes responsibility for identifying problems, and perhaps most important, directs the way the program and its objectives are communicated. Because it is a departure from traditional types of relocation assistance, spouse assistance needs internal marketing in order to achieve its potential benefits.

Use flexible or personalized programs to meet the varied needs of spouses. Many programs implemented in the last year acknowledge diverse employment situations by offering choices in types of assistance offered. One way to make programs more flexible is to offer choices, but knowledgeable advice must be provided in order for spouses to choose the best options. Personal counseling is another way to combine expert guidance and emotional support in a context that allows flexibility.

Help spouses penetrate the local job market. Techniques for helping individuals understand and connect with the local job market are central to a growing number of programs, in contrast to earlier forms of spouse assistance that consisted primarily of self-assessment and resume-writing. Since self-marketing cannot be effective unless it reaches the relevant market, companies are implementing job banks, personalized research, employer consortia, and even job development programs for spouses.

As spouse programs increase in number and quality, it is important to remember that employment assistance is only a partial answer to the challenge of two-career relocations. Spouse programs make relocation viable for couples who otherwise would not consider it. But not even the best assistance can make a transfer acceptable to every two-earner family. Even with excellent employment assistance, two-earner couples may begin to limit the number of relocations they consider. Employment is one issue in a range of family concerns affecting working couples. Relocation packages are likely to devote increased attention to dependent care and other family issues. Companies may also have to consider ways of reducing the need for relocation. Short-term assignments, alternative management development systems, limits on the number of relocations, more stringent criteria for evaluating the necessity of a relocation, and concentrating activities in hub locations are some approaches employers can explore to retain and develop a work force that is increasingly composed of two-earner families.

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